

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 20-F**

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REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number: 001-14714

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**兖州煤业股份有限公司**

(Exact name of Registrant as specified in its charter)

**Yanzhou Coal Mining Company Limited**

(Translation of Registrant's name into English)

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**People's Republic of China**  
(Jurisdiction of incorporation or organization)

**298 Fushan South Road**  
**Zoucheng, Shandong Province**  
**People's Republic of China**  
(Address of principal executive offices)

**Wu Xiangqian**  
**298 South Fushan Road**  
**Zoucheng, Shandong Province**  
**People's Republic of China (273500)**  
**Tel: (86)537 5382319**  
**Fax: (86)537 5383311**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

**Securities registered or to be registered pursuant to Section 12(b) of the Act.**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares	New York Stock Exchange
Class H Ordinary Shares	New York Stock Exchange*

\* Not for trading in the United States, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

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**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

**None**  
(Title of class)

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

**None**  
(Title of class)

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**2,960,000,000 Domestic Shares, par value RMB1.00 per share**  
**1,958,400,000 H Shares, par value RMB1.00 per share, including H Shares that were represented by 5,167,533 ADSs**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued

Other

by the International Accounting Standards Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes statements of our expectations, intentions, plans and beliefs that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and are intended to come within the safe harbor protection provided by those sections. The statements relate to future events or our financial performance, including, but not limited to, projections and estimates concerning the timing and success of specific projects and acquisitions. We use words such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “will” and the negatives of such terms or other similar expressions to identify forward-looking statements.

Without limiting the foregoing, all statements relating to our future operating results and anticipated capital expenditures, borrowings and sources of funding are forward-looking statements and speak only as of the date of this annual report. These statements are based on numerous assumptions that we believe are reasonable, but are subject to a wide range of risks, uncertainties and contingencies, which may cause actual results to differ materially from those discussed in these statements. Among the factors that could cause actual results to differ materially are:

- price volatility for our coal and other related products;
- demand for coal in the PRC and overseas markets;
- difficulty in managing our rapid growth, business diversification, geographic expansion and integrating our acquisitions;
- changes in legislation, regulations and policies;
- the factors affecting the methanol industry and methanol prices;
- our ability to compete effectively;
- our need for, and ability to obtain, capital to finance our future expansion plans and capital expenditures;
- expected increases in production capacity and utilization of new facilities;
- competitive landscape;
- uncertainties in estimating our proven and probable coal reserves and our ability to replace and develop coal reserves;
- effects of land reclamation and other liabilities;
- geologic, equipment and operational risks related to mining;
- changes in economic strength and political stability of countries in which we have operations or serve customers;
- our ability to realize the anticipated benefits of our acquisition of equity interests or assets of coal mines;
- obtaining governmental permits and approvals for our operations;
- proximity of our coal resources to end-markets and costs of transportation;
- availability, timing of delivery and cost of key supplies;
- impacts of natural disasters, epidemics and safety accidents; and
- other factors, including, but not limited to, those discussed under “Risk Factors”, set forth in Part D of Item 3 of this annual report.

All of the forward-looking statements made in this annual report are qualified by this cautionary statement. We cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us, our business or our operations. We caution you not to place undue reliance on any such forward-looking statements. Unless we are required to do so under U.S. federal securities laws or other applicable laws, we do not intend to update or revise any forward-looking statements.

## DEFINITIONS AND SUPPLEMENTAL INFORMATION

As used in this annual report, references to “Yanzhou Coal,” “we,” “our,” “our Company,” “the Group” or “us” refer to Yanzhou Coal Mining Company Limited and its subsidiaries, which have been consolidated into its accounts for the purpose of the consolidated financial statements, unless the context indicates otherwise. References to “the Company” refer to Yanzhou Coal as a stand-alone statutory entity.

“ADSs” are to the American depository shares of the Company.

“A Shares” are to domestic shares in the ordinary share capital of the Company, with nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange.

“Articles of Association” are to our Articles of Association, as amended from time to time.

“ASX” are to ASX Limited or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

“Australia” are to the Commonwealth of Australia.

“Beisheng Industry and Trade” are to Zoucheng Yankuang Beisheng Industry and Trade Co., Ltd., a limited liability company incorporated in the PRC.

“Beisu Company” are to Yankuang Group Beisu Coal Mine Co., Ltd., a limited liability company incorporated in the PRC, which is a wholly owned subsidiary of Yankuang Group.

“CASs” are to Accounting Standard for Business Enterprises and the relevant regulations and explanations issued by the Ministry of Finance of the PRC.

“China” or the “PRC” are to the People’s Republic of China, excluding, for purposes of this annual report, the Hong Kong Special Administrative Region (“Hong Kong”), Macau Special Administrative Region and Taiwan.

“CSRC” are to the China Securities Regulatory Commission.

“Directors” as used herein refer to our directors as discussed in Item 6 herein.

“Donghua Heavy Industry” are to Yankuang Donghua Heavy Industry Company Limited, a company with limited liability incorporated under the laws of the PRC in 2013, and a wholly-owned subsidiary of the Company, which engages in the design, manufacturing, installation, repairing and maintenance of the Company’s mining equipment, electromechanical equipments and parts;

“Eastern China” are collectively to Shandong Province, Jiangsu Province, Anhui Province, Zhejiang Province, Fujian Province, Jiangxi Province and Shanghai Municipality; “southern China” are to Guangdong Province, Hunan Province and Guangxi Zhuang Autonomous Region; “northern China” are to Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and the Inner Mongolia Autonomous Region; and “northwestern China” are to Shaanxi Province, Gansu Province, Qinghai Province, Xinjiang Uyghur Autonomous Region and Ningxia Hui Autonomous Region.

“Felix” are to Yancoal Resources (formerly Felix Resources Limited).

“Gloucester” are to Gloucester Coal Ltd., a company incorporated in Australia, which focuses on the exploration, mining and sale of coal in Australia. We completed the merger with Gloucester in June 2012, which turned Gloucester into a wholly-owned subsidiary of Yancoal Australia.

“Grant Thornton” are to a registered firm of certified public accountants in the People’s Republic of China and is the principal auditor for the purpose of reporting to the United States Securities and Exchange Commission and other relevant U.S. regulatory bodies.

“Grant Thornton Hong Kong” are to a firm of certified public accountants in Hong Kong and operates as a corporate practice under the name of Grant Thornton Hong Kong Limited. This firm is the auditor for the purpose of the Hong Kong H Share listing only.

“H Shares” are to overseas listed foreign invested shares in the ordinary share capital of the Company, with nominal value of RMB1.00 each, which are listed on the HKSE.

“Haosheng Company” are to Inner Mongolia Haosheng Coal Mining Company Limited, a Company incorporated in the PRC and a 77.75%-owned subsidiary of the Company, which engages in project development for Shilawusu Coal Field in the Inner Mongolia Autonomous Region.

“Heze Nenghua” are to Yanmei Heze Nenghua Company Limited, a Company incorporated in the PRC and a 98.33%-owned subsidiary of the Company, which manages our exploration for coal resources at the Juye Mine in Heze City, Shandong Province.

“Hong Kong Listing Rules” are to the Rules Governing the Listing of Securities on the HKSE.

“Hong Kong Stock Exchange” or “HKSE” are to The Stock Exchange of Hong Kong Limited.

“Hua Ju Energy” are to Shandong Hua Ju Energy Co., Limited, a Company incorporated in the PRC and a 95.14%-owned subsidiary of the Company, which engages in the generation of electric power from coal gangue and coal slurry, which are byproducts of our coal mining process.

“IFRS” are to International Financial Reporting Standards, as issued by the International Accounting Standard Board (“IASB”).

“Industry Guide 7” are to the United States Securities and Exchange Commission Industry Guide 7.

“Inner Mongolia Xintai” are to Inner Mongolia Xintai Coal Mining Company Limited, a company incorporated in the PRC that is a 80%-owned subsidiary of Ordos Neng Hua, which operates the Wenyu Coal Mine in Inner Mongolia Autonomous Region.

“Jiemei Wall Materials” are to Jining Jiemei New Wall Materials Co., Ltd., a limited liability company incorporated in the PRC.

“JORC Code” are to the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.

“LIBOR” are to the London Interbank Offered Rate.

“MEP” are to the Ministry of Environmental Protection of the PRC.

“MLR” are to the Ministry of Land and Resources of the PRC.

“MOFCOM” are to the Ministry of Commerce of the PRC.

“MRRT” are to the Minerals Resource Rent Tax, a tax on assessable profits generated from the extraction of coal and iron ore in Australia.

“NDRC” are to the National Development and Reform Commission of the PRC.

“NYSE” are to the New York Stock Exchange, Inc.

“Ordos Neng Hua” are to Yanzhou Coal Ordos Neng Hua Company Limited, a wholly owned subsidiary of the Company incorporated in the PRC that is principally engaged in the development of coal resources and the development of coal chemical business in the Inner Mongolia Autonomous Region.

“PBOC” are to the People’s Bank of China.

“PRC government” are to the central, provincial or municipal government of the PRC.

“PRC Standards” are to the standards in the Solid Mineral Resource/Reserve Classification of the PRC (GB/T17766-1999).

“SAFE” are to the State Administration of Foreign Exchange of the PRC.

“SASAC” are to the State-owned Assets Supervision and Administration Commission.

“SAT” are to the State Administration of Taxation of the PRC.

“SEC” are to the United States Securities and Exchange Commission.

“Shanxi Nenghua” are to Yanzhou Coal Shanxi Nenghua Company Limited, a wholly owned subsidiary of the Company incorporated in the PRC that manages our investment projects in Shanxi Province.

“Shares” refers collectively to our (i) domestic invested shares listed on the Shanghai Stock Exchange, par value RMB1.00 each (the “Domestic Shares” or “A Shares”), (ii) foreign-invested shares issued and traded in HK dollars and listed on the Hong Kong Stock Exchange, par value RMB1.00 each (the “H Shares”) and (iii) American Depositary Shares, each of which represents ten H Shares.

“Shengyang Wood” are to Shandong Shengyang Wood Co., Ltd., a limited liability company incorporated in the PRC.

“Significant subsidiary” are to a significant subsidiary as defined in Rule 1-02 of Regulation S-X under the U.S. Securities Act of 1933.

“SSE” are to the Shanghai Stock Exchange.

“Thirteenth Five-Year Plan” are to the Thirteenth Five-Year Plan (2016-2020) for National Economic and Social Development in the PRC.

“Tianhao Chemicals” are to Shanxi Tianhao Chemicals Company Limited, a 99.89%-owned subsidiary of Shanxi Nenghua and a Company incorporated in the PRC, which is principally engaged in the operation of a 100,000 tonne methanol project in Shanxi Province.

“Tonne” are to metric tonne, which is equivalent to 1,000 kilograms or approximately 2,205 pounds.

“Twelfth Five-Year Plan” are to the Twelfth Five-Year Plan (2011 to 2015) for National Economic and Social Development in the PRC.

“Yancoal Australia” are to Yancoal Australia Limited, an ASX-listed subsidiary of the Company incorporated in Australia that manages our investment projects in Australia, which is 78%-owned by the Company.

“Yancoal Canada” are to Yancoal Canada Resources Co., Ltd., a wholly owned subsidiary of the Company that manages our investment projects in Canada.

“Yancoal Resources” are to Yancoal Resources Limited, formerly known as Felix Resources Limited (“Felix”), a limited company incorporated under the laws of Australia and an indirect wholly owned subsidiary of Yancoal Australia, which mainly engages in coal mining, sales and exploration of coal.

“Yancoal International (Holding)” are to Yancoal International (Holding) Co., Limited, a wholly owned subsidiary of the Company.

“Yankuang Finance” is Yankuang Group Finance Company Limited, a joint venture established by the Yankuang Group, China Credit Trust Co., Ltd. and Yanzhou Coal Mining.



“Yankuang Group” or “Controlling Shareholder” are to Yankuang Group Corporation Limited (formerly known as Yanzhou Mining (Group) Corporation Limited), a wholly state-owned enterprise established in the PRC, and the Controlling Shareholder of our Company.

“Yulin Nenghua” are to Yanzhou Coal Yulin Nenghua Company Limited, a wholly owned subsidiary of the Company incorporated in the PRC, which is principally engaged in the operation of a 600,000-tonne methanol project in Shaanxi Province. Certain mining terms used in this annual report are defined in the “Glossary of Mining Terms”, which was included as Appendix B to our registration statement on Form F-1 that we filed with the U.S. Securities and Exchange Commission. A copy of the “Glossary of Mining Terms” may be obtained upon written request to the Company.

## CONVENTIONS

Unless otherwise specified, all references in this annual report to “U.S. dollars”, “USD” or “US\$” are to United States dollars, the lawful currency of the United States of America; all references to “HK dollars”, “HKD” or “HK\$” are to Hong Kong dollars, the lawful currency of Hong Kong; all references to “AUD” or “A\$” are to Australian dollars, the lawful currency of Australia; all references to “RMB” are to Renminbi, the lawful currency of the PRC; all references to “Euro” or “€” are to Euro, the lawful currency of the European Union; and all references to “British Pound” or “£” are to British Pound, the lawful currency of the British Kingdom. Our financial statements are denominated in RMB and, except as otherwise stated, all monetary amounts in this annual report are presented in RMB.

Solely for your convenience, certain items in this annual report contain translations of Renminbi amounts into U.S. dollars, which have been made at the rate of RMB6.4778 to US\$1.00, being the exchange rate as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States on December 31, 2015. All such translations in this annual report are provided solely for your convenience and no representation is made that the Renminbi amounts could have been or could be converted into U.S. dollars at that rate, or at all.

In this annual report, where information has been presented in percentages, or thousands or millions or billions of units, amounts may have been rounded up or down. Accordingly, the amounts identified as total amounts in tables may not be equal to the apparent sum of the amounts listed therein.

Coal resources and reserves are key elements in our Company’s investment decision-making process. The term “resources” describes a concentration or occurrence of material of intrinsic economic interest in or on the Earth’s crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. The term “reserves” describes the recoverable quantity of coal that is commercially viable for development given the prevailing economic situation, particularly with respect to the prices of coal at the time of estimation. Reserves are estimated using a deterministic method, in which a single best estimate is made based on known geological, engineering and economic data, or a probabilistic method, in which known geological, engineering and economic data are used to generate a range of estimates and their associated probabilities. All coal reserves data are estimates, which are revised when additional information becomes available (for example, when additional coal mines commence operations or when actual coal production or extraction commences). “Proven reserves” refers to estimated quantities of coal that geological and engineering data demonstrate have reasonable certainty of being recovered in future years from known deposits under existing economic and operating conditions (that is, prices and costs at the date the estimate is made). “Probable reserves” refers to the estimated quantities of coal that geological and engineering data demonstrate have fair to good probability of being recovered in future years from known deposits under existing economic and operating conditions. To qualify as proven reserves, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the proven estimate. To qualify as probable reserves, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the proven plus probable estimate. Our total in-place proven and probable reserves are presented to include all mining and preparation losses that occur during the processing of coal after it is mined. Recoverable reserves refer to the amount of in-place proven and probable reserves but exclude all mining and preparation losses that occur during the processing of coal after it is mined. Our estimates of recoverable reserves are reported after deduction of actual production volume and nonaccessible reserves up to December 31, 2015. Unless otherwise specified, coal reserves and resources are presented on a 100% basis.

A majority of our Company’s total estimated proven coal reserves are located in China and Australia. The coal reserves data in this annual report represent estimates of our Company that were calculated by its internal reserves system, which includes, among others, procedures for classifying and estimating reserves. Our Company believes that the methods it uses to estimate these reserves are consistent with definitions and classifications in Securities Act Industry Guide 7, the JORC Code and the PRC Standards, as applicable, to its PRC and Australian mines. Our Company’s internal geological team focuses on periodically estimating reserves information based on geological data obtained from various geological, geophysical and engineering studies. Estimates of net reserves are based on numerous assumptions and estimates relating to technical factors such as initial coal reserves, initial production rates, production decline rates, ultimate recovery of reserves, as well as commercial factors such as future coal prices, timing and amount of capital expenditures, and operating costs that may occur during the production life of the coal reserves.

Unless otherwise indicated, information regarding our Company's coal production in this annual report refers to our Company's share of production based on its percentage of equity interest in the relevant subsidiaries or coal mining projects.

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

### ITEM 3. KEY INFORMATION

#### A. Selected Financial Data

##### *Historical Financial Data*

The following table sets forth selected financial data as of and for the years ended December 31, 2011, 2012, 2013, 2014 and 2015. The selected income statement and cash flow data for the years ended December 31, 2013, 2014 and 2015 and the summary balance sheet data as of December 31, 2014 and 2015 have been derived from our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with those financial statements and the accompanying notes. Unless otherwise indicated, the financial statements have been prepared and presented in accordance with IFRS, as issued by the IASB.

	As of and for the Year Ended December 31,					
	2011 RMB	2012 RMB	2013 RMB	2014 RMB	2015 RMB	2015 US\$
(in millions except per Share and per ADS data)						
<b>INCOME STATEMENT DATA</b>						
Total revenue <sup>1</sup>	47,065.8	58,146.2	56,401.8	60,370.8	36,404.1	5,646.1
Gross sales of coal	45,181.2	56,200.6	54,444.8	58,539.4	32,876.0	5,099.0
Railway transportation service income	476.9	464.1	457.9	373.6	327.3	50.8
Gross sales of electricity power	328.0	323.6	332.1	241.5	598.6	92.8
Gross sales of methanol	1,059.3	1,118.0	1,155.7	1,195.5	2,264.7	351.2
Gross sales of heat supply	20.5	39.9	11.2	20.8	27.5	4.3
Gross sales of equipment manufacturing	—	—	—	—	309.9	48.1
Transportation costs of coal	(1,248.3)	(2,104.2)	(2,024.2)	(2,291.6)	(2,078.9)	(322.4)
Cost of sales and service provided	(25,986.7)	(42,149.0)	(42,511.8)	(49,557.5)	(25,838.3)	(4,007.4)
Cost of electricity power	(362.5)	(330.8)	(320.5)	(159.7)	(476.5)	(73.9)
Cost of methanol	(930.2)	(911.2)	(850.8)	(869.3)	(1,535.8)	(238.2)
Cost of heat supply	(13.8)	(25.1)	(6.7)	(11.2)	(13.4)	(2.1)
Cost of equipment manufacturing	—	—	—	—	(307.6)	(47.7)
Gross profit	18,524.3	12,625.8	10,687.8	7,481.4	6,153.6	954.4
Selling, general and administrative expenses	(6,570.2)	(7,987.6)	(10,380.7)	(6,069.9)	(5,696.7)	(883.5)
Share of profit of associates	68.9	142.0	233.9	310.6	502.4	77.9
Share of loss of jointly controlled entities	—	(191.6)	(376.0)	(320.8)	(170.5)	(26.4)
Other income	1,075.8	2,930.4	1,020.6	2,382.2	2,317.9	359.5
Interest expense	(839.3)	(1,448.7)	(1,765.8)	(2,183.6)	(2,484.4)	(385.3)
Profit before income taxes	12,259.5	6,070.4	(580.3)	1,599.9	622.3	96.5
Income taxes	(3,466.9)	(36.2)	394.8	(1,112.8)	(489.6)	(75.9)
Profit for the year	8,792.5	6,034.2	(185.5)	487.1	132.6	20.6
Profit attributable to our equity holders	8,745.1	6,065.6	777.4	766.2	164.5	25.5
Earnings per Share	1.78	1.23	0.16	0.16	0.03	0.005
Earnings per ADS	17.78	12.33	1.58	1.56	0.33	0.05
Operating income per Share before income tax	2.49	1.23	(0.12)	0.33	0.13	0.02
Profit from continuing operation per ADS before income tax	24.93	12.34	(1.18)	3.25	1.27	0.20
<b>CASH FLOW DATA</b>						
Net cash from operating activities	17,977.3	6,503.6	(2,201.1)	4,171.8	4,347.2	674.2
Net cash from (used in) investing activities	(25,611.1)	(3,187.4)	(13,504.4)	(8,534.8)	8,203.4	(1,272.3)
Net cash from (used in) financing activities	9,441.1	1,145.1	13,286.9	8,692.2	11,073.8	1,717.5
<b>BALANCE SHEET DATA</b>						
Total current assets	30,169.7	29,833.5	31,524.4	38,086.3	48,811.1	7,516.8
Total current liabilities	34,721.5	28,622.7	28,816.0	27,329.9	42,056.3	6,476.6
Net current assets/(liabilities)	(4,551.8)	1,210.8	2,708.4	10,756.4	6,754.8	1,040.2
Property, plant and equipment	31,273.8	39,503.1	41,896.5	44,174.6	45,616.0	7,024.8
Total assets	96,890.2	122,165.1	127,458.2	133,098.1	142,471.9	21,940.4
Long-term bank borrowing	14,869.3	33,283.8	44,100.0	50,566.4	45,576.6	7,018.7
Equity attributable to our equity holders	42,451.5	45,530.0	40,378.7	38,725.8	35,370.0	5,446.9
<b>DIVIDEND PER SHARE</b>						
A and H Shares	0.57	0.36	0.02	0.02	0.01	0.002
ADS	5.7	3.6	0.20	0.20	0.10	0.02

The following additional references are added for understanding the historical data

1. The financial figures of 2015 presented in USD are converted from RMB at a rate of RMB6.4778 to US\$1.00.
2. Dividend per share for the year 2015 represents the dividend proposed.
3. In 2015, the Group consolidated financial statements of Shandong Duanxin Supply Chain Co., Ltd., Donghua Heavy Industries Co., Ltd. and Qingdao Zhongyin Ruifeng International Trade Co., Ltd. Since 2014, the Group consolidated financial statements of Shandong Zhongyin Logistics and Trade Co., Ltd., Zhongyin Financial Leasing Co., Ltd. (“Zhongyin Financial Leasing”) and Duanxin Investment Holding (Beijing) Co., Ltd. Since 2013, the Group consolidated financial statements of Haosheng Company and Shandong Yanmei Rizhao Port Coal Storage and Blending Co., Ltd. (“Rizhao Coal Storage and Blending”) Since 2012, the Group consolidated the financial statements of Shandong Coal Trading Centre Co., Ltd. and since 2011, the Group consolidated the financial statements of Yancoal International.
4. The Company repurchased H shares in 2015. Pursuant to relevant repurchase laws and regulations, earnings per share, dividend per share, net cash flow per share generated in business activities, net assets per share, the shareholding ratio and other related indices were calculated based on the total equity after deduction of repurchased shares.
5. This annual report does not contain a separate analysis of companies such as Shandong Yanmei Shipping Co., Ltd., Shandong Coal Trading Centre Co., Ltd. etc., whose operating results and assets did not have any material impact on the Group.
6. Pursuant to the new regulations promulgated by International Financial Reporting Interpretations Committee with regard to the “Overburden in Advance in the Production of an Open Cut”, the Group accounted for the figures of overburden in advance from 1 January 2013 onwards and had made retrospective adjustments on the relevant figures in the financial statement of 2011 and 2012.

### *Number of Shares Outstanding*

	<u>As of December 31,</u>				
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
A Shares	2,960,000,000	2,960,000,000	2,960,000,000	2,960,000,000	2,960,000,000
H Shares	1,958,400,000	1,958,400,000	1,958,400,000	1,958,400,000	1,958,400,000
ADS	13,933,698	12,915,380	6,952,181	6,952,181	5,167,533

### *Exchange Rate Information*

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we use in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve H.10 Statistical Release.

<u>Period</u>	<u>Period End</u>	<u>Average<sup>(1)</sup></u> (expressed in RMB per US\$)	<u>High</u>	<u>Low</u>
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.3093	6.3449	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4936	6.2401	6.4936	6.1136
September	6.3556	6.3676	6.3836	6.3630
October	6.3180	6.3488	6.3591	6.3180
November	6.3883	6.3636	6.3945	6.3180
December	6.4778	6.4477	6.4896	6.3883
2016				
January	6.5752	6.5726	6.5932	6.5219
February	6.5525	6.5501	6.5785	6.5154
March	6.4480	6.5027	6.5500	6.4480
April (through April 15, 2016)	6.4730	6.4713	6.4810	6.4580

- (1) Determined by averaging the rates on the last business day of each month during the respective period, except for monthly averages, which are determined by averaging the rates on each business day of the month.

On April 15, 2016, the noon buying rate was US\$1.00 = RMB6.4730.

## **B. Capitalization and Indebtedness**

Not applicable.

## **C. Reasons for the Offer and Use of Proceeds**

Not applicable.

## **D. Risk Factors**

Our business, financial condition and results of operations are subject to various changing business, industry, competitive, economic, political and social conditions in China and worldwide. In addition to the factors discussed elsewhere in this annual report, the following are some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements.

### **Risks Relating to Our Business and Industry**

*Our business and profitability are affected by global economic conditions.*

The coal industry depends on general economic conditions, including the conditions of global and local economies. In 2015, the economic recovery of certain developed countries have generally been muted or have slowed down, which has led to general market volatility and uncertainty about the prospects of future of global growth and investment. In addition, regional geopolitical turmoil in various countries has added uncertainty to the global economy. Meanwhile, China's economic growth has generally slowed down due to excess production capacities in certain industries. The PRC government has implemented economic reform and sought to enhance economic growth methods, which includes energy conservation and environmental measures. However, to achieve certain energy-saving, emission-reduction as well as environmental protection goals, high energy consumption industries, such as coal industry and its downstream industries may be adversely affected, which may in turn materially and adversely affected our business, results of operations and financial condition.

*Our operating business, results of operations and financial condition depend on volatile domestic and international coal markets.*

Coal sales accounted for 96.5%, 97.0% and 90.3% of our revenues in 2013, 2014 and 2015, respectively, and we expect our coal sales to continue to account for a substantial portion of our revenue. As we derive a substantial portion of our revenue from sales of coal and coal-related products, our business and operating results depend heavily upon supply and demand for coal and coal-related products in the domestic and international coal markets. Accordingly, we are vulnerable to downturns in the demand for coal, increases in supply of coal through new or expanded coal production and declines in coal prices.

In 2015, the global economy experienced a depth adjustment and China's economic growth slowed down. Coal companies faced pressures from environmental protection and severe imbalance of supply and demand in coal market, as a result, the coal price hovering at a low level and the coal industry was generally in extensive loss. As such, the coal industry was confronted with continuous downturn in 2015. The average selling price of our coal products was RMB523.5, RMB475.6 and RMB376.8 per tonne in 2013, 2014 and 2015, respectively, representing a decrease of RMB98.8 per tonne from 2014 to 2015, which in turn had a direct adverse impact on our sales income. We cannot assure you that demand for and prices of coal will not further decline, the occurrence of which may adversely affect our business, results of operations and financial condition.

Global coal demand correlates strongly with the global economy and the performance of coal-consuming industries, including but not limited to the power generation, chemical, metallurgy and construction materials industries. In addition, the availability and prices of alternative energy sources to coal, as well as international shipping costs, also affect coal demand. Coal supply is primarily affected by the geographic location of coal reserves, transportation capacity, the level of domestic and international coal supplies and the type, quality and price of coal from various producers. Developments in the international coal market may adversely affect our overseas sales. The relaxation of global supply-demand structure of coal or reduction in demand for coal from key consuming industries, such as the PRC power generation industry, metallurgy industry and other related sectors, may decrease coal prices which, in turn, may significantly reduce our profitability and adversely affect our business, results of operations and financial condition.

*We face risks associated with our sales contracts and strategic framework agreements, which may materially and adversely affect our business, results of operations and financial condition.*

Sales of our coal produced in China are made primarily on the spot market or pursuant to strategic framework agreements and to a lesser extent, pursuant to sales contracts. Approximately 75% of sales of our coal produced in Australia are made pursuant to sales contracts. Our PRC sales contracts generally have terms of one year and specify the price, quantity and quality of coal and delivery schedule of coal. Our Australian sales contracts generally have terms of one year or less and specify the price, quantity and quality of coal and delivery schedule of coal. In 2014 and 2015, due to the volatile international coal markets, customers purchasing our coal produced in Australia generally entered into quarterly contracts with us. As such, if we experience a weak coal pricing environment that results in a decline in coal prices at the time of actual delivery, our revenue and profitability may be materially and adversely affected. In addition, our sales contracts are not automatically renewable. If we are not able to maintain our sales contracts with our major customers on terms commercially acceptable to us or at all, our business, results of operations and financial condition may be adversely affected.

In addition, the strategic framework agreements used in the sales of our coal produced in China generally only specify the quantity and quality of coal, while the purchase price is determined in the annual or monthly sales contracts we enter into under the strategic framework agreements. As a result, we are subject to market conditions at the time of actual delivery. Moreover, as letters of intent are not legally binding, customers entering into letters of intent with us are not obligated to purchase the agreed quantity of products, or any products at all. In addition, in accordance with industry practice, our customers do not enter into long-term contracts (those exceeding one year) with us. Therefore, we do not have long-term commitments from our customers to purchase our products, and our customers may reduce or stop purchasing products from us for various reasons, which may also materially and adversely affect our business, results of operations and financial condition.

***We derive a significant portion of our revenue from a limited number of customers, and the loss of, or a significant reduction in, sales to any of these customers could materially and adversely affect our business, results of operations and financial condition.***

For the years ended December 31, 2013, 2014 and 2015, our top five customers accounted for 21.4%, 18.7% and 34.7% of our revenue, respectively, and sales to our largest customer accounted for 6.0%, 5.0% and 10.1% of our revenue, respectively. We expect that our results of operations will continue to depend on sales to a limited number of customers for the foreseeable future. We may not be able to rely on these customers for revenue generation in the future. We may lose these customers due to the intensified competition. See “— Competition in the PRC and the international coal industry is intensifying, and we may not be able to maintain our competitiveness.” We may also experience reduction, delay or cancellation of orders from one or more of our significant customers, and any decline in the businesses of our customers could also reduce their purchases of our products. The loss of sales to any of these customers could have a material adverse effect on our business, results of operations and financial condition.

***We rely primarily on ports, highways and third party operated railway systems in the PRC and Australia to deliver our coal, any major disruption of which may adversely affect our business, results of operations and financial condition.***

We rely primarily on highways and our own railway network, as well as third party operated railway system, to deliver coal to customers in China. We also deliver small volumes of coal through ports and canals. Coal resources and production in China are mainly located in northern and northwestern China, while coal consumption is primarily in eastern and southern China. As a result, coal suppliers must transport coal via third party operated railway systems from major supply areas to major demand areas. Although the PRC government has taken steps to upgrade and expand the railway system, the capacities of certain railway routes even after an increase in capacity may not be sufficient to meet coal transportation demand of certain areas in the short-term. Even though our domestic customers are mainly located in eastern China, where the railway system is more developed than other regions of China, our ability to deliver coal is still restricted by the transportation capacity. Pursuant to the Twelfth Five-Year Plan, the PRC government plans to construct several railways for coal transportation in cities in northern China and northwestern China, such as Shanxi Province, Shaanxi Province and the Inner Mongolia Autonomous Region. However, as it will take a significant amount of time for the relevant PRC authorities to grant approvals and permits and to complete the construction of the railway, we anticipate that we will continue to face challenges with respect to access to railway transportation. In addition to railway transportation, we use major coal shipping ports along the coast of China to deliver coal to customers located along the coastal regions of China. However, we may not be able to continue securing sufficient railway or port capacity to deliver our coal and may experience material delivery delays or substantial increases in transportation costs as a result of insufficient railway capacity.

In Australia, we rely substantially on third party operated railway networks to deliver coal to ports in New South Wales and Queensland, for onward shipping to our customers. We generally enter into transportation agreements with national and privately operated railway networks, rail haulage operators and ports to secure transportation capacity, generally for terms of ten to 15 years and generally on a “take or pay” basis. As the transportation capacity secured by these agreements is based on assumed production volume, we may not have sufficient capacity if our actual production volume exceeds our estimated production volume. Conversely, we may have excess transportation capacity (which, in the case of “take or pay” agreements, we will have to pay for even if unused) if our actual production volume is lower than our estimated production volume. In 2016, we expect the sluggish global economy will lead to weak demand for coal in both the PRC and overseas markets. We expect that global economic conditions will remain uncertain and international coal markets will not fundamentally improve in 2016, and as a result, we cannot assure you that we will fully use the transportation capacity secured on a “take or pay” basis. In addition, we may not be able to secure sufficient transportation capacity to deliver our coal in the future and may experience material delivery delays or substantial increases in transportation costs as a result of insufficient transportation capacity, which may also adversely affect our business, results of operations and financial condition.

***Competition in the PRC and the international coal industry is intensifying, and we may not be able to maintain our competitiveness.***

We face competition in all aspects of our business, including sales and marketing, pricing of coal, production capacity, coal quality and specifications, transportation capacity, cost structure and brand recognition. Our coal business competes in the domestic and international markets with other large domestic and international coal producers. With the increased focus on the supply side reforms implemented by the PRC Government, the ongoing consolidation in the PRC and Australian coal industry has increased the level of competition we face in our core business. In 2015, China continued to import a substantial amount of coal. Our competitors may have higher production capacities, stronger brand names and better financial, marketing, distribution and other resources than we do. We may not be able to maintain our competitiveness if changes or developments in the market weaken our existing competitive advantages. Efforts by our competitors to improve the quality of their coal may render obsolete or irrelevant any competitive advantage we have over them. Our failure to compete effectively may have a material adverse impact on our business, results of operations and financial condition.

***We may not be able to meet our capital expenditure requirements or secure additional external financing in the future.***

Our business is capital intensive and will require substantial expenditures for, among other things, the construction of our key projects, machinery and equipment and operational capital expenditures. In 2013, 2014 and 2015, our total capital expenditures in respect of our core business operation were approximately RMB20,251.2 million, RMB7,489.4 million and RMB9,868.5 million, respectively. In 2013, 2014 and 2015, our total capital expenditures in respect of acquisition of subsidiaries were approximately RMB12,391.9 million, RMB 3,746.2 million and RMB676.0 million, respectively. Our capital expenditures were made largely due to investment in our core coal businesses. We intend to use cash on hand, funds from operations and additional debt and equity financing to finance our capital expenditures going forward. However, we may not be able to obtain sufficient amounts of capital in a timely manner, on terms acceptable to us, or at all, which could result in a material adverse effect on our business, results of operations and financial condition.

In recent years, the size of our interest-bearing debt obligations has increased. In November and December 2013, we issued RMB denominated short term notes and non-public financing instruments in aggregate principal amounts of RMB6 billion. As of December 31, 2015, we had approximately RMB69,479.8 million in borrowings, of which approximately RMB23,903.2 million is due within a year and approximately RMB45,576.6 million is due after one year. In the first quarter of 2016, we issued RMB denominated super-short-term notes in the aggregate principal amount of RMB12 billion. This level of debt could have significant consequences for our operations, including reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes as a result of our debt servicing obligations, limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, our industry and the general economy and potentially limiting our ability to obtain, or increasing the cost of, any additional financing. In addition, our business plans may change from time to time due to changing circumstances, new opportunities or unforeseen contingencies. If we change our business plans, we may need to obtain additional external financing which may include bank borrowings or issuances of debt securities to meet our capital expenditure plans. If we raise additional funds through debt financing, our interest and debt repayment obligations will increase and we may be subject to additional covenants that could limit our ability to access cash flows from operations. We may not be able to raise sufficient financing to fund our future capital expenditures and service our debt obligations or at all. Failure to obtain sufficient financing could cause delays or abandonment of business development plans and have a material adverse effect on our business, results of operations and financial condition.

***The coal reserve data in this annual report are only estimates, which may differ materially from actual reserve amounts.***

Our coal reserve data are only estimates, which may differ materially from actual reserve amounts. There are inherent uncertainties in estimating reserves, which require the consideration of a number of factors, assumptions and variables, many of which may be beyond our control and cannot be ascertained despite due investigation. Our reserve estimates may change substantially if new information becomes available.

In addition, reserve data for certain of our PRC mines are estimated in accordance with Industry Guide 7 for proven and probable reserves and the JORC Code, as revised in 2004, for reserves. Reserve data for our Australian mines are typically estimated in accordance with the JORC Code, as revised in 2012. As the mining standards and mining terminology of the JORC Code may differ substantially from Industry Guide 7, our reserve data may materially vary when we compile and present such data. As such, our actual results of operations may differ materially from our long-term business and operational projections, which are based on our coal reserve estimates. We may adjust our coal reserve estimates downward in the future, and in such event, our long-term production and the useful lives of our mines may be materially and adversely affected.

***Our business, results of operations and financial condition depend on in part our ability to continue developing or acquiring suitable coal reserves.***

Coal reserves in existing mines decline as coal is produced. Due to limitations in significantly increasing our production capacity at existing mines, our ability to expand our coal production capacity depends on our development of coal reserves, as well as our projects under construction.

We may not be able to successfully develop new coal mines or expand our existing ones in accordance with our development plans, or at all. Moreover, we may not be able to continue to identify suitable acquisition targets or acquire these targets on competitive terms, at an acceptable cost or in a timely manner. The acquisition of new mines by PRC coal companies, either within China or overseas, and the procurement of related licenses and permits are subject to PRC government approvals. Delays or failures in securing the required PRC government approvals, licenses or permits, as well as any adverse change in government policies, may hinder our expansion plans, which may materially and adversely affect our future profitability and growth prospects. In connection with overseas acquisitions and expansion, we may encounter challenges due to our unfamiliarity with local laws and regulations, and may suffer foreign exchange losses on overseas investments or face political or regulatory obstacles to acquisitions. As a result of these challenges, our overseas expansion plans and investments may not be successful and may not achieve our anticipated results. Failure to acquire suitable targets on competitive terms, develop new coal mines or expand our existing coal mines could have an adverse effect on our competitiveness and growth prospects.

***We may experience difficulty in integrating our acquisitions, which could result in a material adverse effect on our business, results of operations and financial condition.***

We may from time to time expand our business through acquisitions of other coal mining companies, assets or other coal or mining-related businesses. We are devoting significant resources to the integration of our operations in order to achieve the anticipated synergies and benefits of the acquisitions and expansion.

Acquisitions and expansion involve uncertainties and a number of risks, including:

- difficulty in integrating the assets, operations and technologies of the acquired companies or assets, including their employees, corporate cultures, managerial systems, processes and procedures and management information systems and services;
- complying with the laws, regulations and policies applicable to the acquired businesses;
- failure to achieve the objectives or benefits, or to generate sufficient revenue to recover the costs and expenses, resulting from the acquisition and integration of such companies or assets;
- managing relationships with employees, customers and business partners during the course of integrating new businesses;
- integrating other acquired employee groups with our employee groups and on maintaining productive employee relations;
- attracting, training and motivating members of our management and workforce;
- accessing our capital resources and internally generated funds to fund acquisitions, which may divert financial resources otherwise available for other purposes;
- strengthening our operational, financial and management controls, particularly those of our newly acquired assets and subsidiaries, to maintain the reliability of our reporting processes;
- difficulty in exercising control and supervision over the newly acquired operations, including failure to implement and communicate our safety management procedures resulting in additional safety hazards and risks;
- potential ongoing financial obligations and unforeseen or hidden liabilities of the acquired companies or coal or potash-related businesses; and
- failure to diversify our operations to include new products or successfully manage our operations in new markets, such as potash.

In the event that we are unable to efficiently and effectively integrate newly acquired companies or coal or potash-related businesses into our Company, we may be unable to achieve the objectives or anticipated benefits of such acquisitions, which may adversely impact our business, results of operations and financial condition. In addition, we may have to write down the carrying value of the intangible assets associated with any acquired companies, which could adversely affect our earnings.



***We may be required to allocate additional funds for land subsidence, restoration, rehabilitation and environmental protection.***

Underground and surface mining may cause the land above mining sites to subside, or may otherwise adversely affect the environment. We may compensate inhabitants in areas surrounding our mining sites for their relocation expenses or for any property loss or damage as a result of our mining activities. PRC regulations require us to set aside provisions to cover the costs associated with land subsidence, restoration, rehabilitation and environmental protection. An estimated provision is deducted as a cost and expense item in our income statement based on the amount of coal actually extracted. In addition, under the relevant Australian environmental regulations, rehabilitation costs are generally estimated in accordance with the expected costs of land rehabilitation. These land rehabilitation costs may exceed current estimates. Environmental legislation may also change, which could result in mandated modifications to mining operations that are costly.

In 2013, 2014 and 2015, we expensed approximately RMB1,390.6 million, RMB1,225.4 million and RMB1,499.5 million, respectively, of our provisions for land subsidence, restoration, rehabilitation and environmental protection as determined by our Directors based on estimations of various factors, including past occurrences of land subsidence. However, the provisions that we make are only estimates and may be adjusted to reflect the actual effects of our mining activities on the land above and surrounding our mining sites. Therefore, such estimates may not be accurate and land subsidence, restoration, rehabilitation and environmental costs may substantially increase in the future. Moreover, governments may impose new fees or change the basis of calculating compensation and reclamation costs in respect of land subsidence, the occurrence of any of which could increase our costs and have a material adverse effect on our business, results of operations and financial condition.

***Our business and industry may be affected by the development of alternative energy sources and climate change.***

We supply coal as fuel to, among others, the PRC thermal power generation industry and, as a result, are affected by the demand and growth of the PRC thermal power industry, which in turn is affected by the development of alternative energy sources, climate change and global environmental factors. If alternative combustion technologies develop and reduce the demand for coal in electricity generation, then demand for coal in the PRC thermal power generation industry may decrease, which would materially and adversely affect its demand for our products.

In addition, while the majority of global energy consumption is from conventional energy sources such as coal, alternative energy industries are rapidly developing and are gradually gaining widespread acceptance. Coal combustion generates significant greenhouse gas and other pollutants, and the effects of climate change resulting from global warming and increased pollution levels may provide incentives for governments to promote or invest in “green” energy technologies such as wind, solar, nuclear and biomass power plants, or to reduce their consumption of conventional energy sources such as coal. The Plan for Strategic Action of Energy Development (2014-2020), promulgated by the PRC government on June 7, 2014, requires total primary energy consumption by 2020 should be limited to approximately 4.8 billion tonnes, and total coal consumption should be limited to approximately 4.2 billion tonnes. By 2020, consumption of non-fossil fuel energy should account for 15% of total primary energy consumption, and consumption of coal should account for less than 62% of total primary energy consumption. With the increased concern and development on low-carbon economy and environmental protection in the PRC, the domestic coal consumption is expected to gradually decrease, accounting for 60% of the total primary energy consumption by the end of the Thirteenth Five-Year Plan. As such, alternative energy industries may rapidly develop and gradually gain mainstream acceptance in the PRC and the rest of the world. If alternative energy technologies continue to develop and prove suitable for wide commercial application in the PRC and overseas, demand for conventional energy sources such as coal could gradually be reduced, which would have a material adverse effect on the coal mining industry and, consequently, our business, results of operations and financial condition. See “— Our business, results of operations and financial condition may be adversely affected by present or future environmental regulations.”

***Exploration of mineral properties and development of resources could involve significant uncertainties.***

We currently have exploration projects in Australia and Canada and we may have additional exploration projects in the PRC and other countries and regions in the future. The success of any mining exploration program depends on various factors including, among other things, whether mineral bodies can be located and whether the locations of mineral bodies are economically viable to mine. In addition, the development of these resources could face significant uncertainties. It can take several years and would require capital expenditures from the initial exploration phase until production commences, during which time market fundamentals, capital costs and economic feasibility may change, and the actual results may differ from those anticipated by third party independent technical studies. Furthermore, there are a number of uncertainties inherent in the development and expansion of mining operations, including: (i) the availability and timing of necessary governmental permits, licenses and approvals; (ii) the timing and cost necessary to construct mining and processing facilities; (iii) the availability and cost of labor, utilities, and supplies; (iv) the accessibility of transportation and other infrastructure; and (v) the availability of funds to finance construction and production activities. As a result, we cannot assure you that any of our exploration activities will result in the discovery of valuable resources or reserves, or that reported resources can be converted into reserves in the future.

***We are exposed to fluctuations in exchange rates and interest rates.***

We face risks relating to fluctuations in exchange rates for RMB against other currencies, primarily the Australian dollar and the U.S. dollar. China has adopted a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand with reference to a basket of currencies. Effective on August 11, 2015, the PBOC implemented a market-based determination of the official USD/ RMB fixing rate. The mid-point will be based on market maker submissions based on the previous day's USD/ RMB spot market closing price, thereby taking into account supply and demand dynamics and the movement of other major currencies. The PBOC's latest move to market-based currency setting has significant economic implications locally and globally, further strengthens market-determined exchange rates and marks an important step in the exchange rate reforms implemented by the PRC Government. We are primarily affected by exchange rate fluctuations that arise from our export sales denominated in Australian dollars and U.S. dollars, which may affect the RMB values of such export sales. In addition, exchange rate fluctuations can result in exchange losses on our foreign currency deposits and loans and other indebtedness. As of December 31, 2015, the exchange rate for the Australian dollar against the U.S. dollar was US\$1.00 = A\$0.7306, compared with US\$1.00 = A\$0.8173 as of December 31, 2014. We recorded an exchange loss of RMB1,686.0 million and RMB201.8 million for the year ended December 31, 2013 and 2015, respectively; and an exchange gain of RMB154.0 million for the year ended December 31, 2014, respectively. Exchange rate fluctuations can affect our cost of imported equipment and components. See "Item 3. — Key Information — A. Selective Financial Data — Exchange Rate Information."

On April 9, 2013, with the authorization of the PBOC, the China Foreign Exchange Trade System (CFETS) launched direct trading between Renminbi and Australian dollar on the inter-bank foreign exchange market, which is based on the direct exchange rate between the two currencies. We expect that this will help lower the currency conversion costs between the two currencies. However, we cannot assure you that the new policy will decrease our currency conversion costs. The conversion costs we realized in the previous trading scheme, which used U.S. dollars, may be lower, reflecting that the U.S. dollar is more liquid than the Australian dollar.

We are exposed to cash flow interest rate risk in relation to variable-rate bank balances, term deposits, restricted cash and variable rate borrowings. Our interest rate risk primarily arises from fluctuations in the PBOC benchmark interest rate in relation to our RMB-denominated borrowings, and fluctuations in the LIBOR rate in relation to our U.S. dollar-denominated borrowings. As of December 31, 2015, we had approximately US\$6.4 billion of borrowings denominated in U.S. dollars and RMB27.6 billion of borrowings denominated in RMB. A substantial majority of our borrowings denominated in RMB are linked to the benchmark lending rate published by the PBOC, which is subject to fluctuations as the PRC government adjusts interest rates and related policies from time to time as a matter of national economic policy.

In addition, a substantial majority of our borrowings denominated in U.S. dollars are linked to floating LIBOR rates, the fluctuation of which are beyond our control. Our lending rates may increase in the future as a result of reasons beyond our control, and may result in an adverse effect on our business, results of operations and financial condition.

As a part of our risk management efforts, we entered into forward foreign exchange contracts to sell or purchase specified amounts of foreign currencies in the future at stipulated exchange rates. The objective of entering into the forward foreign exchange contracts is to reduce our exposure to foreign exchange rate related volatility, which may affect the presentation of our revenues and capital expenditures. To hedge the exchange losses of USD loan arising from the fluctuation of foreign exchange, Yancoal Australia and Yancoal International have taken foreign exchange hedging measures to such debt on the accounting basis, which mitigated the impact of exchange loss on the current profit. As of December 31, 2014, this interest rate hedging contract expired and we did not enter into any new interest rate hedging contracts. As of December 31, 2015, the fair value of our derivative assets in respect of our forward foreign exchange contracts was approximately RMB5.4 million. See "Item 11. Quantitative and Qualitative Disclosures of Market Risks." In addition, as of December 31, 2015, our Australia subsidiary's outstanding sell USD contracts are hedging highly probable forecast sales of coal, whereas the outstanding buy AUD and USD contracts relate to the settlement of CNY term deposits. The contracts are timed to settle when the RMB term deposits mature. There were also outstanding sell AUD and buy EUR contracts which relate to settlement of EUR purchases. However, despite our risk management efforts, our hedging arrangements may not be effective in all situations, and our business, results of operations and financial condition may be materially and adversely affected by fluctuations in exchange rates or interest rates.

***Our business, results of operations and financial condition are subject to resource taxes and we may not be able to pass on our increased costs relating to resource taxes to our customers.***

Pursuant to the *Notice of Adjustment of Resource Tax in Shandong Province*, jointly issued by the Provincial Department of Finance and local tax authority of Shandong, since December 1, 2014, the collection basis of resource tax in Shandong province has been changed from volumes into prices and the amount of business tax has been changed from RMB3.6 per tonne into 4% of the taxable sales of coal. Pursuant to the *Notice of the Reformation Implementation of Coal Resource Tax in Shanxi Province*, jointly issued by the Provincial Department of Finance and local tax authority of Shandong, as of December 1, 2014, the collection basis of resource tax in Shanxi Province has been modified to take into account prices, and business tax amounts have been changed from RMB3.2 per tonne to 8% of the taxable sales of coal. Pursuant to the Announcement of Applicable Coal Resource Tax Rate of Inner Mongolia, as of December 1, 2014, the collection basis of resource tax in Inner Mongolia has been modified to take into account prices, and the amount of business tax has been changed from RMB3.2 per tonne to 9% of the taxable sales of coal.

For resource taxes that are paid based on volume, we and our domestic subsidiaries pay resource tax on the actual sales of the sum of raw coal and washed coal products, multiplied by the applicable tax rate. For resource tax that are paid based on price, we and our domestic subsidiaries pay resource tax on the total taxable sales, multiplied by the applicable tax rate. As a result of these changes, if the tax based on pricing is significantly higher than our current tax, our costs will increase, which could have a material adverse effect on our business, results of operations and financial condition. In addition, the Australian MRRT became effective as of July 1, 2012. The MRRT is a profits-based tax that is charged at an effective rate of 22.5% on the assessable profits (excess of annual mining revenue over annual mining expenditures with respect to mineral interests, less certain allowances) of, among others, coal mining enterprises. On October 24, 2013, the Australian government announced that it will seek to repeal the MRRT with effect from July 1, 2014. We cannot predict whether the MRRT will be successfully repealed. The MRRT has the potential to increase the overall tax liability of our Australian subsidiaries and adversely affect our results of operations and financial condition in the future.

***Our Controlling Shareholder has significant influence over us.***

As of December 31, 2015, our Controlling Shareholder, the Yankuang Group, together with its wholly owned subsidiary, owned 56.59% of our outstanding shares and has significant influence over us. The Company entered into a special labor and service supply agreement in March 2014 and renewed five continuing connected transaction agreements with Yankuang Group, namely a materials supply agreement, a supply of labor and services agreement, a pension fund management agreement, a coal products and materials supply and equipment lease agreement and an electricity and heat energy supply agreement in the ordinary course of business in October 2014. In March of 2014 and 2015, the Company renewed a financial services agreement with Yankuang Group, respectively. In addition, on March 27, 2015, the Company entered into a coal train escort services agreement with Shandong Yankuang Security Services Co., Ltd., a wholly owned subsidiary of the Company. The Company also entered into an investment consulting agreement and the supplemental agreement with Shangqi Capital Management Co., Ltd.. These related party transactions were reviewed and approved according to the procedures under relevant regulations and standards of the HKSE, SSE, NYSE and SEC. However, we may continue to enter into related party transactions with Yankuang Group and, as such, any material financial or operational developments experienced by the Yankuang Group that lead to the disruption of its operations or impairs its ability to perform its obligations under the agreements could materially affect our business, results of operations and financial condition and future prospects.

As our Controlling Shareholder, the Yankuang Group has the ability to exercise control over the Company's business and affairs, including, but not limited to, decisions with respect to:

- mergers or other business combinations;
- the acquisition or disposition of assets;
- the issuance of additional shares or other debt or equity securities; and
- management of our Company.

Accordingly, our Controlling Shareholder may vote, take other actions or make decisions that conflict with our interests or the interests of our other security holders.

***Our coal operations are extensively regulated by the PRC and Australian government, and government regulations may limit our activities and adversely affect our business, results of operations and financial condition.***

Our coal operations in China are subject to extensive regulation by the PRC government. National governmental authorities, such as the National Development and Reform Commission of the PRC (the "NDRC"), the MEP, the MLR, the State Administration of Coal Mine Safety of the PRC ("SACMS"), the State Administration of Work Safety of the PRC (the "SAWS"), the National Energy Administration of the PRC and the SAT, as well as corresponding provincial and local authorities and agencies, exercise extensive control over the mining and transportation (including rail, sea and river transport) of coal within China. Our operations in Australia are subject to similar laws and regulations of general application governing mining and processing, land tenure and use, environmental requirements, including site-specific environmental licenses, permits and statutory authorizations, workplace health and safety, trade and export, competition, access to infrastructure, foreign investment and taxation. These regulations may be implemented by various federal, state and local government departments and authorities including the Department of Industry and the Department of Environment. Regulatory oversight from these authorities and agencies may affect the following aspects of our operations, among others:

- the use and granting of mining rights;
- access to land for mining and mining-related purposes;
- exploration licenses;
- rehabilitation of mining sites and surrounding areas;

- mining recovery rates;
- pricing of our transportation services for coal in China;
- taxes, levies and fees on our business;
- return on investments;
- application of capital investments;
- pension fund contributions;
- technological innovations;
- preferential tax treatment;
- environmental and safety standards; and
- MRRT and carbon tax for Australian operations.

As a result of the foregoing regulation, our ability to execute our business strategies or to carry out or expand our business operations may be restricted. We are still in the process of obtaining or renewing some of the regulatory approvals, permits and licenses required for our business operations, and may experience substantial delays in obtaining such regulatory approvals, permits and licenses.

Our business may also be adversely affected by future changes in PRC or Australian regulations and policies that affect the coal industry. The adoption of new legislation or regulations or the new interpretation of existing legislation or regulations or changes in conditions attaching to approvals may materially and adversely affect our operations, our tax costs and cost structure or product demand. The occurrence of any of the foregoing may cause us to substantially change our existing operations, incur significant compliance costs and increase the risk of our future investment or prevent us from carrying out mining operations, which could have a material adverse effect on the profitability of our operations in Australia and our overall business, results of operations and financial condition. See “— Our business, results of operations and financial condition may be adversely affected by present or future environmental regulations” and “— Our business, results of operations and financial condition are subject to resource taxes and we may not be able to pass on our increased costs relating to resource taxes to our customers.”

***Our business, results of operations and financial condition may be adversely affected by present or future environmental regulations.***

Our coal mining operations produce waste water, gas emissions and solid waste materials. In addition, surface mining operations also produce noise pollution. As a PRC and Australian coal producer, we are subject to extensive and increasingly stringent environmental protection laws and regulations. These laws and regulations:

- impose fees and limits on the discharge of waste substances to air, water and land, including carbon emissions;
- require provisions for land reclamation and rehabilitation;
- impose fines and other penalties for serious environmental offenses;
- authorize the PRC government to close any facility that fails to comply with environmental regulations and suspend any coal operation that causes excessive environmental damage; and
- establish the conditions (including environmental requirements) for domestic mining operations.

Due to the increasing awareness of environmental issues, the PRC government has tightened its enforcement of applicable laws and regulations and adopted more stringent environmental standards, such as the Working Plan for the Control of Discharge of Greenhouse Gases under the Twelfth Five-Year Plan, the Twelfth Five-Year Plan for Environmental Protection and the Twelfth Five-Year Plan for Energy-saving and Emission-reduction, pursuant to which China plans to continue to increase the proportion of non-fossil fuels used as an overall primary energy source to 11.4% by 2015 and reduce the proportion of coal used as an overall primary energy source. On September 10, 2013, the State Council issued the Action Plan for Prevention and Control of Atmospheric Pollution (the “Action Plan”), pursuant to which the PRC government plans to reduce the coal consumption to less than 65% of total energy consumption by 2017. On April 24, 2014, the Standing Committee of National People’s Congress passed the Amended Environmental Protection Law, pursuant to which, effective January 1, 2015, more responsibility has been imposed on local governments and unlimited fines will be imposed on polluters. Similarly, our Australian operations are subject to Australia’s stringent federal and state environmental laws and regulations. Compliance with laws and involvement in litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, Australian environmental approval processes require a technical environmental assessment to be prepared prior to granting approval, as well as public consultation. Community groups may lobby for more restrictive conditions to be imposed on approvals granted or for the approval to be declined, either of which may result in a material adverse effect on our business and results of operations.

In September 2014, the NDRC issued the State Plan of Responding to the Climate Change (2014-2020), which requires the carbon emission per unit of gross domestic product (GDP) of the PRC to decrease by 40% to 45% from 2005 to 2020; the percentage of non-fossil energy among the primary energy to decrease to approximately 15%; and the carbon emission per unit of industrial added value of the PRC to decrease by 50% from 2005 to 2020. In addition, the PRC government plans to reduce the coal consumption growth in certain key areas such as Beijing-Tianjin-Hebei metropolitan region, Yangtze River Delta and Pearl River Delta by increasing the consumption of electricity generated outside the region and using non-fossil fuel energy such as natural gas as alternative energy.

For our operations in Australia and Canada, we are required to renew some major supervisory approvals, permits and certificates from time to time. If efforts to increase energy efficiency, control greenhouse gas emissions and enhance environmental protection result in a decrease in coal consumption, our revenue may decrease and our business may be adversely affected. In addition, our budgeted amount for environmental regulatory compliance may not be sufficient, and we may need to allocate additional funds for this purpose. If we fail to comply with current or future environmental laws and regulations, we may be required to pay penalties or fines or take corrective actions, any of which may have a material adverse effect on our business, results of operations and financial condition.

***We may not be able to obtain all necessary approvals, permits and licenses.***

Pursuant to applicable laws and regulations in China, we are required to renew approvals, permits and licenses with respect to our exploration activities, mining operations and environmental protection for our existing operational mines and obtain more approvals, permits and licenses for our development-stage or exploration projects such as Shilawusu and Yingpanhao. In addition, we are required to obtain or maintain land use rights certificates and building ownership certificates for property we own or lease properties from owners possess valid land use rights certificates or building ownership certificates.

With respect to our operations in Australia and Canada, we are also required to obtain and renew from time to time a number of material regulatory approvals, permits and license. We are in the process of obtaining or renewing certain regulatory approvals, permits and licenses for our coal mines. For instance, The Land and Environment Court of New South Wales of Ausatralia has approved the Southeast open-pit project at Ashton Coal Mine on the condition that we are not allowed to continue the project before we obtain the title of the land adjacent to the site of the project. As of the date of this annual report, the landowner of the adjacent land is unwilling to sell the land.

If any of these or our other mining licenses, safety production licenses, environmental authorities or other certificates, approvals or permits are revoked, not renewed or not obtained, we could be required to cease operations of the affected mine or production facility. The loss of some or all of our mining licenses, coal production licenses, safety production licenses, environmental authorities or other certificates, approvals or permits may have a material adverse effect on our business, results of operations and financial condition.

***Our ability to operate effectively could be impaired if we lose key personnel, including mine planners, or if we are unable to attract and retain skilled and qualified personnel.***

In the conduct of our operations, we rely substantially on the services of our key employees with professional skills, qualifications and experience, including mine planners. We may not be able to continue to employ our key personnel or attract and retain skilled and qualified personnel and the loss of any of these personnel could materially and adversely affect our operations.

As our business expands, we believe our success will depend on our continued ability to attract and retain skilled and qualified personnel familiar with internationalized operation. Any difficulty in attracting, recruiting, training and retaining skilled and qualified personnel could materially and adversely affect our business, results of operations and financial condition.

***Our operations may be affected by uncertain mining conditions and we may suffer losses resulting from mining safety incidents.***

Our coal mines and operating facilities may be damaged by water, gas, fire or cave-ins due to unstable geological structures, which may affect the safety of our workforce as well as our costs of producing coal, including without limitation, roof collapses, deterioration in the quality or variations in the thickness of coal seams, mine water discharge and flooding, inclement weather, explosions from methane gas or coal dust, ground falls and other mining hazards. For example, an underground incident occurred at Austar Coal Mine on April 15, 2014 and two employees died. Additionally, we are exposed to operational risks associated with industrial or engineering activities, such as maintenance problems or equipment failures. Although we conduct geological assessments on mining conditions and adapt our mining plans to the mining conditions at each mine, adverse mining conditions may endanger our workforce, increase our production costs, reduce our coal output or temporarily suspend our operations. Although we have implemented safety measures at our mining sites, trained our employees on occupational safety and maintain liability insurance for personal injuries as well as limited property damage for certain of our operations, safety incidents may occur. The occurrence of any of the foregoing events or conditions would have a material adverse impact on our business, results of operations and financial condition.

***We face price volatility and intense competition in our methanol operations.***

We entered the PRC methanol market and commenced production of coal-based methanol at Tianhao Chemicals and Yulin Nenghua in September 2008 and August 2009, respectively. In addition, our methanol project located in Ordos City, Inner Mongolia Autonomous Region commenced commercial production in the first quarter 2015. In 2013, 2014 and 2015, we generated revenue of RMB1,155.7 million, RMB1,195.5 million and RMB2,264.7 million from sales of methanol, respectively, which represented 2.0%, 2.0% and 6.2% of our total revenue for the same periods, respectively.

The methanol business is a cyclical and competitive commodity industry with rapidly changing supply and demand fundamentals. In addition, there is currently significant overcapacity in the methanol industry, which is not expected to change, and the market demand of methanol is expected to be limited with gradual release of demand.

We expect our methanol prices to be affected by a number of factors, including, without limitation:

- global and domestic methanol production;
- global energy prices;
- methanol plant utilization rates, capacity expansions and shutdowns;
- global economic conditions;
- compliance costs and environmental risks; and
- competition from low-cost methanol producers.

As of the end of 2015, we had a total annual methanol production capacity of 1.7 million tonnes. In addition, we have completed the construction of a 600,000-tonne methanol project in Ordos City, Inner Mongolia Autonomous Region, which has become commercially operational in the first half of 2015. We may not be able to optimize the utilization of our new facilities as planned. If our projections for the domestic methanol market prove incorrect or if we are unable to otherwise compete effectively, we may not recover the capital and resources we have invested in our methanol operations and may not realize the intended benefits of our expansion into this industry. In either event, our business, results of operations and financial condition will be adversely affected.

***Our expansion of new business involve risks and uncertainties, which may adversely affect our business, results of operations and financial conditions.***

In 2015, we expanded to equipment manufacturing business after we acquired 100% of equity interest in Donghua Heavy Industry. Equipment manufacturing business is relatively new to us and involves risks and uncertainties different from our coal related business. These risks and uncertainties mainly include, among other things,

- industry risks, including the risks of equipment manufacturing industry and the industry which the equipment is mainly used in, such as coal mining industry;
- fluctuation of the prices of raw material and the products;
- integration of business after our acquisition;
- lack of experience in managing or operation equipment manufacturing business; and
- loss of key personnel and employees.

Due to these risks and uncertainties, we cannot assure you that we will successfully manage and operate the equipment manufacturing business, and our expansion into this new business will result in satisfying results. If we fail to manage the equipment manufacturing business, our overall business, results of operations and financial condition may be adversely affected.

***We may incur losses for our investments in financial institutions.***

We made two investments in the shares of financial institutions in 2015 and 2016, respectively. In particular, we subscribed 246,210,000 shares in Qilu Bank Co., Ltd. (“Qilu Bank”) in August 2015 and 400,000,000 shares of China Zheshang Bank Co., Ltd. (“Zheshang Bank”) in its initial public offering in March 2016, respectively. On April 18, 2016, we further purchased additional 88,000,000 shares of Zheshang Bank through block trading in the HKSE. As of the date of this annual report, we held approximately 14.79% of the outstanding H shares of Zheshang Bank. These investments in financial institutions are primarily for the purpose of enhancing our profitability, diversifying our assets portfolio, improving our investment return and diversifying our source of revenue. However, our investments in the shares of financial institutions are subject to various risks and uncertainties, such as global economic conditions and the market conditions of banking and financial industry. Furthermore, the return of our investments in Qilu Bank and Zheshang Bank are also affected by their business, results of operations and financial conditions. Qilu Bank and Zheshang Bank are mainly engaged in banking business in the PRC, which is sensitive to the general economic conditions in the PRC. The banking industry is highly regulated in the PRC, any change of the laws or regulations or policies of the PRC government may affect their business and operation results, and thus affect our investment return or value in Qilu Bank and Zheshang Bank. The shares of Zheshang Bank are listed in the Hong Kong Stock Exchange. The price of shares may be volatile from time to time and any decrease of share price of Zheshang Bank may result in a decrease of the value of our assets. As such, the return of our investment in shares of these banks and value of our investment may be adversely affected by various factors which are all out of our control, and as a result the value of our investment may decrease and we may incur losses for our investments. In such cases, our business, results of operations and financial conditions may adversely affected.

***Our insurance will not cover all the potential risks associated with our operations.***

Our business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labor disputes, unusual or unexpected geological conditions, ground or slope failures, changes in regulatory environment and natural phenomena such as inclement weather conditions, floods, earthquakes and fires. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to our properties or properties of others, delays in development or mining, monetary losses and possible legal liability. Customary to what we believe to be industry practice, we have maintained insurance to protect against certain risks in such amounts we consider to be reasonable. However, our insurance may not cover all potential risks associated with our operations. We may also be unable to maintain insurance to cover these risks at economically feasible premiums and may not be able to pass on any increased costs relating to insurance to our customers. If such costs exceed the levels which we expect, there could be a material adverse effect on our business, results of operations and financial condition.

***We may not be able to protect our patents or other intellectual property rights, which could have a material adverse effect on our business.***

From 2013 to 2015, we completed 387 technology improvement projects, obtained 143 patents and received 244 technological awards, which have enhanced our coal mining and related business operations. Further, we own other intellectual property such as trademarks and know-how. We believe our patents and other intellectual property rights are important to our success. Existing laws in China offer limited protection for our intellectual property rights. We rely upon a combination of patents, confidentiality policies and agreements, nondisclosure and other contractual arrangements to protect our intellectual property rights. We cannot assure you that we will be able to detect any unauthorized use of, or take appropriate, adequate and timely actions to enforce, our intellectual property rights. Consequently, we may not be able to effectively prevent unauthorized use of our patents in other countries where such patents are not registered.

The measures we take to protect our intellectual property rights may not be adequate, and monitoring and preventing unauthorized use is difficult. The protection of our intellectual property may be compromised as a result of (i) expiration of the protection period of our registered intellectual property rights, (ii) infringement by others of our intellectual property rights; and (iii) refusal by relevant regulatory authorities to approve our pending patent applications. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our intellectual property rights, our reputation may be negatively impacted and our business may be materially and adversely affected.

***The audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.***

Auditors of companies that are registered with the SEC and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the United States Public Company Accounting Oversight Board (the “PCAOB”) and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards in connection with their audits of financial statements filed with the SEC. Because we have substantial operations within the Peoples’ Republic of China and the PCAOB is currently unable to conduct inspections of the work of our auditors as it relates to those operations without the approval of the Chinese authorities, our auditor’s work related to our operations in China is not currently inspected by the PCAOB.

This lack of PCAOB inspections of audit work performed in China prevents the PCAOB from regularly evaluating the audits performed by our independent registered public accounting firm Grant Thornton and its quality control procedures. As a result, investors are deprived of the full benefits of PCAOB inspections of auditors.

The inability of the PCAOB to conduct inspections of audit work performed in China makes it more difficult to evaluate the effectiveness of our auditor’s audit procedures as compared to auditors in other jurisdictions that are subject to PCAOB inspections on all of their work. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

***Proceedings instituted recently by the SEC against five PRC-based accounting firms could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act.***

The SEC has recently brought administrative proceedings against five accounting firms in China, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC for potential accounting fraud. On January 22, 2014, an initial administrative law decision was issued, censuring these accounting firms and suspending four of the five firms from practicing before the SEC for a period of six months. The decision is neither final nor legally effective unless and until reviewed and approved by the SEC. The sanction will not become effective until after a full appeal process is concluded and a final decision is issued by the SEC. The four firms which are subject to the six month suspension from practicing before the SEC have recently appealed the initial administrative law decision to the SEC. We were not and are not subject to any SEC investigations, nor are we involved in the proceedings brought by the SEC against the accounting firms. In addition, our independent registered public accounting firm has no relationship with any one of the four accounting firms subject to the six month suspension from practicing before the SEC in the initial administrative law decision. However, we cannot assure you that our independent registered public accounting firm will not be investigated or be subject to similar suspension in the future and we may therefore be adversely affected by the outcome of such proceedings, along with other U.S.-listed companies audited by these accounting firms.

On May 24, 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and MOFCOM, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in the United States and China. In February 2015, each of the four accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The firms’ ability to continue to serve all their respective clients is not affected by the settlement. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to Chinese firms’ audit documents via the CSRC. If the firms do not follow these procedures, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings. The settlement did not require the firms to admit to any violation of law and preserves the firms’ legal defenses in the event the administrative proceeding is restarted.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our ADSs may be adversely affected.



## **Risks Relating to the PRC**

### ***Changes in China's economic, political and social conditions as well as governmental policies could affect our business, results of operations and financial condition.***

China's economy differs from the economies of more developed countries in many respects, including the structure of the economy, level of government involvement, level of development, growth rate, control of capital investment, control of foreign currency and allocation of resources. China's economy has been in transition from a planned economy to a more market-oriented economy. For the past three decades, the PRC government authorities have implemented economic reform measures to emphasize market forces in economic development. The PRC government authorities implement various macroeconomic and other policies and measures from time to time, including contractionary and expansionary policies and measures at times of, or in anticipation of, changes in China's economic conditions. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country. We cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, results of operations and financial condition.

### ***Interpretation of PRC laws and regulations involves uncertainty.***

The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty. Under certain circumstances, some of these laws may be changed without being immediately published or may be amended with retroactive effect. We cannot predict the effect of future developments in the PRC legal system, particularly with regard to the coal mining industry in China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

### ***Government control of currency conversion and future movements in exchange rates may adversely affect our business, results of operations and financial condition.***

A portion of our Renminbi revenue may need to be converted into other currencies to meet our substantial requirements for foreign currencies, including debt service on foreign currency denominated debt, overseas acquisitions of mining properties, purchases of imported equipment, and payment of dividends declared in respect of shares held by international investors.

Foreign exchange transactions under the capital account, including principal payments with respect to foreign currency denominated obligations, are subject to the approval requirements of SAFE. In addition, the value of Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. Fluctuations in the exchange rate of the Renminbi against the U.S. dollar, the Australian dollar and certain other foreign currencies may adversely affect our business, results of operations and financial condition. For further information, please see "Item 11. Quantitative and Qualitative Disclosures of Market Risks — Foreign Currency Exchange Rate Risk."

### ***Our subsidiaries are subject to restrictions on the payment of dividends to us.***

The ability of our subsidiaries to pay dividends to their shareholders is subject to, among other things, distributable earnings and restrictions contained in the Articles of Association of our subsidiaries, restrictions contained in the debt instruments and the requirements of PRC laws and regulations. For example, certain loan agreements of our subsidiaries contain covenants that limit their ability to pay dividends to us if there is a default in such loan agreements, or unless certain thresholds are satisfied or, in certain cases, limit their ability to pay dividends to us if their after-tax profits are nil or negative. PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Such profits differ from profits determined in accordance with IFRS in certain significant respects, including the use of different bases of recognition of expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as such dividends.

## **Risks Relating to Australia**

### ***Coal mining operations in Australia have inherent title risks associated with renewal and native title rights.***

Interests in tenements in Australia are governed by the respective State and Territory legislation and are evidenced by the granting of licenses or leases. Each license or lease is for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, we could lose title to or our interest in tenements or our ability to retain our interest in tenements in the long run or renewal of the licenses or lease if license or lease conditions are not met or if insufficient funds are available to meet expenditure commitments. If a tenement is not renewed, we may suffer significant damage through loss of the opportunity to discover and/or develop any mineral resources on that tenement.

It is also possible that, in relation to tenements which we have an interest in or will in the future acquire, there may be areas over which legitimate native title rights of Aboriginal Australians exist. If native title rights do exist in the area where requires tenements, our ability to gain access to new tenements, or to progress from the exploration phase to the development and mining phases of operations, may be adversely affected. The tenements in which we have an interest are subject to applications for renewal.

All of the granted tenements in which we have or may earn an interest in will be subject to applications for renewal or grant (as the case may be). The renewal or grant of each tenement or license is usually at the discretion of the relevant government authority which will consider various factors, including our compliance with any conditions placed on an existing license, when making its decisions. It is possible that the government authority may reject our applications for renewal or grant, in which case, our operations in Australia may be adversely affected.

### ***Coal mining operations in Australia are subject to certain domestic operational risks.***

Our coal mining operations in Australia are subject to certain domestic operational risks, which include the following.

*Land access.* The granting of mining tenure does not remove the need to enter into land access arrangements with third party land holders (where the land underlying the mining tenure is owned by a third party). In some cases, the underlying land may be owned by a competitor, pastoralist or other third parties. In addition, elements of the agricultural industry and other groups are opposed to the future development of land for mining or mining-related purposes. These groups are actively lobbying the relevant government entities or seeking public support in an effort to limit the amount of land available for mining, and to make access arrangements for mines more difficult.

*Coordination agreements.* Coal mining tenure in Australia is frequently granted over land over which other tenure has or may be granted, such as coal seam gas tenure. Where coal mining and coal seam gas tenures overlap, it is necessary for the coal miner and coal seam gas producer to enter into a series of coordination arrangements. Where overlapping tenure exists, mining operations cannot commence without the coordination arrangement. In some cases, the interests of the coal miner and coal seam gas producer may not be aligned and accordingly, mining operations may be delayed or adversely affected.

*Environmental conditions and action groups.* Before any mining tenure is granted in Australia, it is required that a comprehensive public environmental assessment on the impact of the proposed mining operations be undertaken. Such an assessment involves a public consultation process, which often involves encountering organized environmental or community groups that seek to restrict or block contemplated mining operations. Generally, where environmental approvals are granted, conditions are frequently imposed that materially affect mining operations.

## **ITEM 4. INFORMATION ON THE COMPANY**

### **A. History and Development of our Company**

#### ***Overview***

Yanzhou Coal Mining Company Limited was established on September 25, 1997 as a joint stock company with limited liability under the Company Law of the PRC (the “Company Law”). The predecessor of our Company, Yanzhou Mining Bureau, was established in 1976. With the approval of the former State Economic and Trade Commission and the former Ministry of Coal Industry in 1996, the predecessor was incorporated under the name Yanzhou Mining (Group) Corporation Limited and subsequently renamed Yankuang Group Corporation Limited after undergoing a reorganization in 1999.

In 1999, the Minister of Foreign Trade and Economic Cooperation, the predecessor of the MOFCOM, approved our conversion into a Sino-foreign joint stock company with limited liability under the Company Law and the Sino-Foreign Joint Venture Law of the PRC.

Our contact information is:

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Website : <http://www.yanzhoucoal.com.cn>  
(the contents of our website do not form part of this annual report)

## ***Acquisitions***

### **Subscription of Placing Shares in Qilu Bank**

Since June 29, 2015, Qilu Bank Co., Ltd (“Qilu Bank”) had placed its shares for public transfer at the National Equities Exchange and Quotations. We subscribed 246,210,000 shares in Qilu Bank at the offering price of RMB3.18 per share, and the subscription was completed on August 7, 2015. We believe that the investment in Qilu Bank will enhance our profitability, improve our investment return and diversify our source of revenue.

### **Acquisition of Equity Interest in Haosheng Company**

We entered into an equity interest transfer agreement and a coal resources transfer agreement of Inner Mongolia Shilawusu Coal Field with Inner Mongolia New Yangtze River Mining Investment Co., Ltd. (“New Yangtze River Company”) for the acquisition of 11.59% of equity interests in Haosheng Company and corresponding 150 million tonnes of coal resources in Shilawusu coal field for a total consideration of RMB885.9 million. New Yangtze River Company subscribed up to 11.59% of equity interests in Haosheng Company through capital injection on December 10, 2015, and at the same time we acquired such 11.59% of equity interest for a total consideration of RMB137.4 million. After the completion of the equity transfer, we held 77.75% of equity interest in Haosheng Company. As of the date of this annual report, the transfer of corresponding coal resources in Shilawusu coal field was in the process of the filing with and approval by the relevant government authorities as agreed under the relevant agreement.

### **Investment Contribution to Dongguan Haichang Industry Co., Ltd.**

We entered into a capital increase agreement with Dongguan Haichang Industry Co., Ltd in December 2015, pursuant to which we agreed to contribute additional RMB550 million to Dongguan Haichang Industry Co., Ltd. Upon completion of this capital increase, we will hold 20.89% equity interest in Dongguan Haichang Industry Co., Ltd.

### **Establishment of Shandong Duanxin Supply Chain Management Co., Ltd.**

We established Shandong Duanxin Supply Chain Management Co., Ltd., a wholly-owned subsidiary, on July 14, 2015, with registered capital of RMB200 million. It mainly engages in logistics, storage and leasing.

### **Establishment of Shandong Zhongyin International Trade Co., Ltd.**

We established Shandong Zhongyin International Trade Co., Ltd., a wholly-owned subsidiary, on September 17, 2015, with registered capital of RMB300 million. It mainly engages in goods and technology import and export, agency services for international and domestic trade, sales of coal, metal material, lubricating grease, coke, iron ore, etc.

### **Increase in Registered Capital in Shanxi Neng Hua**

We increased our capital contribution by RMB267 million in Shanxi Neng Hua in 2015. After the capital increase, Shanxi Neng Hua will have a total registered capital of RMB867 million. As of the date of this annual report, we are in the process to updating the registration of Shanxi Neng Hua.

### **Increase in Registered Capital in Duanxin Investment Holding (Beijing) Company Limited**

We increased our capital contribution by RMB800 million in Duanxin Investment Holding (Beijing) Co., Ltd., one of our wholly-owned subsidiaries in 2015. After the capital increase, Duanxin Investment Holding (Beijing) Co., Ltd. will have a registered capital of RMB810 million.

### **Establishment of Qingdao Zhongyin Ruifeng International Trade Company Limited**

We established Qingdao Zhongyin Ruifeng International Trade Co., jointly with Qingdao Century Ruifeng Group Corporation Ltd. in 2015. Upon establishment, Qingdao Zhongyin Ruifeng International Trade Co., has a registered capital of RMB200 million and were held by us as of 51% of equity interest. Qingdao Zhongyin Ruifeng International Trade Co. mainly engages in international trade and transit trade.

### **Increase in Registered Capital in Zhongyin Financial Leasing Company Limited**

Shandong Yongzheng Investment Development Co., Ltd. made a capital contribution of RMB60 million to Zhongyin Financing Leasing Co., Ltd.. Upon completion, Zhongyin Financing Leasing Co., Ltd. will have a total registered capital of RMB2.06 billion, and Yanzhou Coal, Yancoal International and Shandong Yongzheng Investment Development Co., Ltd. will hold 72.82%, 24.27% and 2.91% of its equity interests, respectively.

### **Subscription of Shares in China Zheshang Bank Co., Ltd.**

Yancoal International, one of our wholly-owned subsidiaries, subscribed 400,000,000 shares of Zheshang Bank for a total consideration of HKD1,584.0 million in its initial public offering in March 2016. The shares of Zheshang Bank are listed on Hong Kong Stock Exchange. On April 18, 2016, we purchased additional 88,000,000 shares of Zheshang Bank through block trading in the HKSE for a total consideration of HKD347.6 million. As of the date of this annual report, we held 488,000,000 shares of Zheshang Bank, representing 14.79% of its outstanding H shares and 2.79% of its total share capital. We believe our investments in Zheshang Bank will enhance our investment portfolio in finance sector, optimize our asset allocation and enhance the coordination between our industrial products and asset management, improve efficiency of our asset operation and diversify our source of revenue.

Save as disclosed above, there was no other asset acquisition, sales and mergers during the reporting period.

### **Capital Expenditures**

Our principal source of cash in 2015 was cash generated from our operating activities, the offering of RMB denominated short term notes and non-public issuance of financing instruments and bank borrowings. Our capital expenditures in 2015 were primarily for operational capital expenditures, purchase of properties, machinery and equipment, payment of dividends, and consideration paid for our acquisitions of assets and equity interests.

The following table sets forth a summary of our capital expenditures in the periods indicated:

	Year Ended December 31,			
	2013	2014	2015	2015
	RMB	RMB	RMB	US\$
	(in millions)			
<b>Capital Expenditure</b>				
Coal mining	18,709.6	5,296.6	9,860.2	1,518.4
Coal railway transportation	22.3	5.0	28.1	4.3
Electricity power and methanol	1,519.2	2,096.3	76.9	11.8
Equipment Manufacturing	—	—	3,338.5	514.1
Corporate	0.1	91.5	48.8	7.5
<b>Total</b>	<u>20,251.2</u>	<u>7,489.4</u>	<u>13,352.5</u>	<u>2,056.2</u>

*Note: Capital expenditures include those arising from the acquisition of equity interest in Donghua Heavy Industry and the joint operation with Moolarben.*

Our planned capital expenditures for 2016 are approximately RMB8,496.4 million. For more information, see “Item 5. Operating and Financial Review and Prospects — B. Liquidity and Capital Resources — Capital Expenditures” in this annual report.

### **Potential Takeovers by Third Parties**

There were no indications of any public takeover offers by third parties in respect of our common shares in 2015.

## **B. Business Overview**

We are one of the largest coal producers in China and Australia, with rapidly growing coal mining operations. We primarily engage in the mining, washing, processing and distribution of coal through railway transportation. We offer a wide variety of coal products including thermal coal, semi-hard coking coal, semi-soft coking coal, PCI coal and other mixed coal products which are sold to power plants, metallurgical mills, chemical manufacturers, construction material manufacturers and fuel trading companies in China and other countries, including Japan and South Korea. Since 2004, we have expanded and diversified our operations to include the production of coal chemicals and the generation of electricity and heat. We also commenced our potash exploration business in 2011. In 2015, we expanded to equipment manufacturing business after we acquired 100% of equity interest in Donghua Heavy Industry.

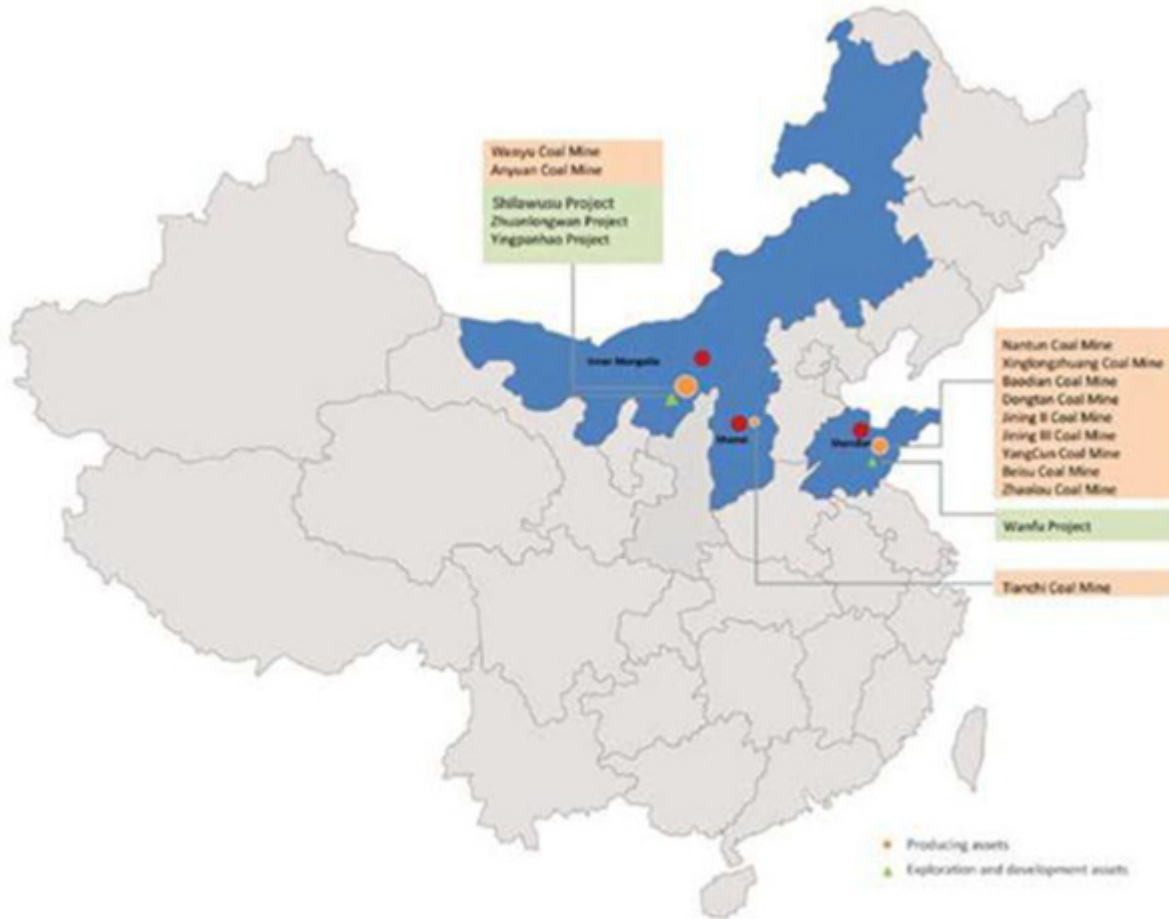
We were established in 1997 and listed on the SSE, HKSE and NYSE in 1998. In addition, our subsidiary, Yancoal Australia, was listed on the ASX in 2012. Our revenue was RMB56,401.8 million, RMB60,370.8 million and RMB36,404.1 million in 2013, 2014 and 2015, respectively.

As of December 31, 2015, we were 52.93% directly owned by our parent, the Yankuang Group, which is controlled by the Shandong Provincial Government under the control of the SASAC of the Shandong Provincial Government. Yankuang Group's wholly owned subsidiary incorporated in Hong Kong owned 3.66% of our total share capital. Yankuang Group and its wholly owned subsidiary incorporated in Hong Kong together owned 56.59% of our total share capital. The Yankuang Group was founded in 1973 to focus on coal mining and sales, the coal chemical industry, power generation, aluminum production, machinery manufacturing and financial investments.

As of December 31, 2015, we owned and operated 21 coal mines across China and Australia with abundant coal resources, including Shandong and Shanxi Provinces and the Inner Mongolia Autonomous Region in China, as well as Queensland, New South Wales and Western Australia in Australia. In addition, as of December 31, 2015, we had four coal projects under construction in China and four advanced-exploration stage projects in Australia.

In PRC, we directly own and operate eight coal mines in the PRC, namely, Nantun, Xinglongzhuang, Baodian, Dongtan, Jining II, Jining III, Beisu and Yangcun which produced in the aggregate approximately 53.7% of our total coal output in 2015. As of December 31, 2015, these eight mines had approximately 3,352.6 million recoverable reserves. We also hold equity interests in a number of coal mines in China through our subsidiaries. Shanxi Nenghua operates Tianchi Coal Mine, which holds approximately 115.8 million tonnes of recoverable reserves; Heze Nenghua operates Zhaolou Coal Mine, which holds approximately 409.5 million tonnes of recoverable reserves; and Ordos Neng Hua operates Anyuan Coal Mine and Wenyu Coal Mine, which holds approximately 26.7 million and 43.1 million tonnes of recoverable reserves, respectively.

The map below shows the approximate locations of our coal mines and projects in China.



In Australia, we conduct our operations in Australia primarily through our subsidiaries, Yancoal Australia and Yancoal International (Holding). Yancoal Australia currently operates nine coal mines in Australia consisting of Aустar, Yarrabee, Ashton, Moolarben, Gloucester, Donaldson, Middlemount, Cameby Downs and Premier which collectively held approximately 4.5 billion tonnes of JORC 2012 Code compliant Coal Reserves as of December 31, 2015. Yancoal Australia also holds an early exploration stage project, Monash. Yancoal International (Holding) currently owns the exploration projects of Athena, Harrybrandt and Wilpeena. In addition, we have a number of exploration tenements adjoining our mining leases in Australia with potential for “brownfield” expansion projects as of December 31, 2015.

The map below shows the approximate locations of our coal mines and projects in Australia.



### Coal Business

We are primarily engaged in the production of coal, which involves the mining, washing, processing and distribution of coal. Our products consist primarily of thermal coal, semi-soft coking coal, semi-hard coking coal, PCI coal and other mixed coal products which are suitable for power generation and metallurgical production. The following table sets forth the specifications and principal applications of our coal products.

	<u>Sulfur Content</u>	<u>Range of and Average Ash Content</u>	<u>Calorific Value (megajoule/kilogram)</u>	<u>Washed</u>	<u>Principal Applications</u>
	%	%			
<b>The Company</b>					
No. 1 clean coal	0.48	7.01-8, average 7.70	28.04	Yes	High quality metallurgical production
No. 2 clean coal	0.54	8.01-9, average 8.41	27.88	Yes	Metallurgical production, construction, liquid coal production
No. 3 clean coal	0.53	10.01-11, average 10.26	26.87	Yes	Electricity generation and coal chemical production

	<u>Sulfur Content</u>	<u>Range of and Average Ash Content</u>	<u>Calorific Value</u> (megajoule/ kilogram)	<u>Washed</u>	<u>Principal Applications</u>
	%	%			
Lump coal	0.52	10.01-14, average 12.28	27.54	Yes	Construction, power generation, coal for oven application
Mixed coal	0.98	19.01-35, average 27.58	20.55	Yes	Power generation
<b>Shanxi Nenghua</b>					
Screened raw coal	2.17	20.01-36, average 27.46	23.71	No	Power generation
Lump coal	1.32	10.01-14, average 11.54	29.15	Yes	Power generation, construction
<b>Heze Nenghua</b>					
No. 2 clean coal	0.63	8.01-9, average 8.50	29.15	Yes	Metallurgical production, construction
Mixed coal	0.95	28.01-35, average 28.71	20.46	Yes	Power generation
<b>Ordos Nenghua</b>					
Screened raw coal	0.73	8.01-24, average 15.30	21.45	No	Power generation
<b>Yancoal Australia</b>					
Semi-hard coking coal	1.30-2.50	6.7-10.50	27.30-29.10	Yes	Metallurgical production
Semi-soft coking coal	0.65	9.5	27.44	Yes	Metallurgical production, construction
PCI coal	0.40-0.80	9.5-12.0	27.40-28.35	Yes	Metallurgical production
Thermal coal	0.50-1.50	11.0-27.0	21.44-24.50	Yes	Power generation

The following table sets forth our principal coal products by sales volume and sales income of coal for the periods indicated. For the purposes of the table below, the figures of sales income and sales volume include inter-segment sales.

	Year Ended December 31,					
	2013		2014		2015	
	Sales volume ('000 tonnes)	Sales income <sup>(1)</sup> (RMB in millions)	Sales volume ('000 tonnes)	Sales income <sup>(1)</sup> (RMB in millions)	Sales volume ('000 tonnes)	Sales income <sup>(1)</sup> (RMB in millions)
<b>The Company</b>	33,271	17,793.3	34,748	15,286.8	34,998	11,764.4
No. 1 clean coal	315	240.9	325	194.9	227	109.0
No. 2 clean coal	9,725	7,196.4	9,060	5,225.6	8,359	3,594.0
No. 3 clean coal	1,926	1,138.6	4,979	2,364.7	3,903	1,516.5
Lump coal	1,448	969.4	2,262	1,177.7	2,511	980.6
Screened raw coal	12,693	5,858.4	10,605	4,206.2	15,558	4,579.7



	Year Ended December 31,					
	2013		2014		2015	
	Sales volume ('000 tonnes)	Sales income <sup>(1)</sup> (RMB in millions)	Sales volume ('000 tonnes)	Sales income <sup>(1)</sup> (RMB in millions)	Sales volume ('000 tonnes)	Sales income <sup>(1)</sup> (RMB in millions)
Mixed coal and others	7,164	2,389.5	7,517	2,117.6	4,440	984.7
<b>Shanxi Nenghua</b>	1,476	416.7	1,500	316.1	748	124.3
Screened raw coal	1,476	416.7	1,500	316.1	748	124.3
<b>Heze Nenghua</b>	2,359	1,435.6	3,110	1,634.7	2,424	977.5
No. 1 clean coal	—	—	21	16.2	—	—
No. 2 clean coal	1,293	1,097.5	2,021	1,316.6	1,754	852.9
Raw coal	—	—	—	—	147	31.7
Mixed coal and others	1,066	338.1	1,068	302.0	523	92.9
<b>Ordos Neng Hua</b>	6,345	1,195.1	5,793	944.4	2,328	386.8
Screened raw coal	6,345	1,195.1	5,793	944.4	2,328	386.8
<b>Yancoal Australia</b>	15,623	8,961.9	15,742	7,300.8	13,276	5,462.7
Semi-hard coking coal	1,361	893.6	973	509.4	1,134	577.3
Semi-soft coking coal	1,595	1,122.1	1,470	800.8	1,404	721.5
PCI coal	3,274	2,304.9	3,280	1,739.5	3,064	1,447.2
Thermal coal	9,393	4,641.2	10,019	4,251.1	7,674	2,716.8
<b>Yancoal International (Holding)</b>	5,525	1,681.5	5,158	1,482.9	6,398	1,836.0
Thermal coal	5,525	1,681.5	5,158	1,482.9	6,398	1,836.0
Externally purchased coal	39,396	22,960.8	57,024	31,573.7	27,070	12,324.3
<b>Total</b>	<b>103,995</b>	<b>54,444.8</b>	<b>123,075</b>	<b>58,539.4</b>	<b>87,242</b>	<b>32,876.0</b>

(1) Sales income comprises the invoiced amount of coal sold net of returns and discounts.

### Sales and Marketing

A significant portion of our PRC domestic sales is made on the spot market or pursuant to strategic framework agreements, while the remainder of our coal sales is made pursuant to sales contracts generally for a term not exceeding one year. These strategic framework agreements generally specify the quantity of the coal to be purchased. Prices for strategic framework agreements are generally determined in the annual sales contracts or monthly sales contracts which we enter under the strategic framework agreements.

We sell the majority of our domestic coal products to power plants, metallurgical mills, coking manufacturers, chemical manufacturers and trading companies with whom we have established long-standing and stable relationships. The majority of the coal sales of our Australian subsidiary, Yancoal Australia, are to power plants and metallurgical mills. The following table sets forth a breakdown of our sales income, which represents the invoiced amount of products sold net of returns and discounts of coal by the industry of our customers for the periods indicated. For the purposes of the table below, the figures of sales income include inter-segment sales.

	Year Ended December 31,					
	2013		2014		2015	
	Sales income <sup>(1)</sup> (RMB in millions)	% of Sales income	Sales income <sup>(1)</sup> (RMB in millions)	% of Sales income	Sales income <sup>(1)</sup> (RMB in millions)	% of Sales income
Power plants	10,432.9	19.2	8,606.5	14.7	7,684.3	23.4
Metallurgical mills	4,950.7	9.1	3,902.3	6.7	3,822.5	11.6
Chemical manufacturers	5,010.9	9.2	4,669.4	8.0	3,628.4	11.0
Trade	22,933.2	42.1	38,618.0	66.0	15,375.4	46.8
Others	11,117.1	20.4	2,743.2	4.6	2,365.3	7.2
<b>Total</b>	<b>54,444.8</b>	<b>100.0</b>	<b>58,539.4</b>	<b>100.0</b>	<b>32,876.0</b>	<b>100.0</b>

(1) Sales income comprises the invoiced amount of coal sold net of returns and discounts.

The following table sets forth a breakdown of sales income of coal by geographical region for the periods indicated. For the purposes of the table below, the figures of sales income include inter-segment sales.

	Year Ended December 31,					
	2013		2014		2015	
	Sales income <sup>(1)</sup> (RMB in millions)	% of sales income	Sales income <sup>(1)</sup> (RMB in millions)	% of sales income	Sales income <sup>(1)</sup> (RMB in millions)	% of sales income
<b>China</b>	45,317.5	83.2	51,454.8	87.9	25,455.9	77.4
Eastern China	39,268.7	72.1	44,511.9	76.0	20,437.5	62.2
Southern China	139.7	0.3	192.1	0.3	1,430.5	4.4
Northern China	2,981.3	5.5	2,610.6	4.5	1,297.7	3.9
Other regions	2,927.8	5.4	4,140.2	7.1	2,290.3	7.0
<b>Japan</b>	1,225.7	2.3	1,217.3	2.1	1,160.6	3.5
<b>South Korea</b>	2,164.4	4.0	2,121.4	3.6	2,076.1	6.3
<b>Australia</b>	2,130.6	3.9	1,211.9	2.1	1,318.6	4.0
<b>Others</b>	3,606.6	6.6	2,534.0	4.3	2,864.7	8.7
<b>Total</b>	<u>54,444.8</u>	<u>100.0</u>	<u>58,539.4</u>	<u>100.0</u>	<u>32,876.0</u>	<u>100.0</u>

(1) Sales income comprises the invoiced amount of coal sold net of returns and discounts.

Our domestic coal sales are concentrated primarily in Eastern China, particularly in Shandong and, to a lesser extent, in Southern China. Our sales income, which represents the invoiced amount of products sold net of returns and discounts, generated from Eastern China as a percentage of total sales income was 72.1%, 76.0% and 62.2% in 2013, 2014 and 2015, respectively. The majority of our sales income is in the PRC. In 2013, 2014 and 2015, we generated 83.2%, 87.9% and 77.4%, respectively, of our sales income from the PRC.

The following table sets forth a breakdown of export sales of our Company and Yancoal Australia for the periods indicated.

	Year Ended December 31,					
	2013		2014		2015	
	Sales income <sup>(1)</sup> (RMB in millions)	% of sales income	Sales income <sup>(1)</sup> (RMB in millions)	% of sales income	Sales income <sup>(1)</sup> (RMB in millions)	% of sales income
<b>The Company</b>						
Japan	1.1	0.1	6.4	0.1	—	—
<b>Our Australian subsidiaries</b>						
South Korea	2,164.4	25.4	2,121.4	28.0	2,076.1	34.7
Japan	1,225.7	14.4	1,217.3	16.0	1,160.6	19.4
China	1,516.0	17.8	1,331.9	17.6	521.1	8.9
Others	3,606.6	42.3	2,901.2	38.3	2,222.3	37.2
<b>Total</b>	<u>8,513.8</u>	<u>100.0</u>	<u>7,578.2</u>	<u>100.0</u>	<u>5,980.1</u>	<u>100.0</u>

(1) Sales income comprises the invoiced amount of coal sold net of returns and discounts.

Export sales, excluding the coal sales in Australia by our Australian subsidiaries, represent only a small percentage of our total coal sales income. In 2013, 2014 and 2015, we generated 15.6%, 12.9% and 18.2%, respectively, of our sales income from export sales. Our major overseas markets include South Korea and Japan. The majority of our overseas customers are located in Asia, and South Korea is our biggest market in this region. Even though we conduct all of our export sales from the PRC through export agents, we maintain close relationships with our overseas customers and end users.

In 2013, 2014 and 2015, our Australian subsidiaries' domestic sales income was 20.0%, 13.8% and 18.1%, respectively, of their total sales income and in these same years their export sales income was 80.0%, 86.2% and 81.9%, respectively, of their total sales income. Our Australian subsidiaries' export sales income represented 99.9%, 99.9% and 100% of our total export sales income in 2013, 2014 and 2015, respectively. Our Australian subsidiaries primarily conduct their export sales directly by entering into agreements with end user customers. Our Australian subsidiaries also export a small portion of coal through export agents with which our Australian subsidiaries have established longstanding relationships. The primary destinations for the export sales of our Australian subsidiaries are South Korea, Japan and China.

To meet our customers' demand beyond the current capacity of our domestic coal mines, and to maintain and expand our customer base to support our anticipated capacity expansion by our advanced-exploration stage coal mines, we also purchase coal from other coal mining companies and trading companies and sell it to power plants, metallurgical mills and construction material manufacturers with whom we have established stable relationships. Purchases and sales of externally purchased coal are made pursuant to sales contracts. These sales contracts generally specify major terms such as the type of the coal, quantity and quality of the coal, price, delivery and payment methods. Prices for such contracts are generally determined in accordance with the market price.

### **Customers**

As of December 31, 2015, our major customers include Shanxi Lu'an Mining (Group) Rizhao International Trading Co., Ltd., Shaanxi Iron & Steel Group Hancheng Iron & Steel Co., Ltd., Shanxi Yangmei Chemical International Business Co., Ltd., Shanxi Xishan Coal and Electricity Trade Co., Ltd., and Shanxi Jicheng Anthracite Mining International Trading (Rizhao) Co., Ltd., among which Shanxi Lu'an Mining (Group) Rizhao International Trading Co., Ltd. was our largest customer. In 2013, 2014 and 2015, sales to our top five largest customers accounted for 21.4%, 18.7% and 34.7% of our sales income, respectively. In 2013, 2014 and 2015, sales to our largest customer accounted for 6.0%, 5.0% and 10.1%, respectively, of our sales income.

Leveraging the high quality of our products and the strength of our brand, we have established long-term relationships with our customers. We make significant efforts to establish and maintain long-term cooperative relationships with our customers, and in particular, with our strategic and key customers. We have annual evaluations of our customers to identify key customers. To maintain the relationships with our key customers, we generally provide favorable price terms and product delivery priority. Our sales and marketing department conducts routine customer visits and customer surveys to keep abreast of market developments, collect and evaluate customers' responses, maintain customer relationships and continually improve our business. In addition, we closely monitor the market information about China, South Korea, Japan and other regions, which we use for business planning and execution.

We have a flexible credit policy, and the credit terms we grant to our customers may vary from customer to customer depending on each customer's creditworthiness, historical relationship with the Company and the credit amount involved. We may allow open accounts, require acceptance bills or require cash on delivery. We rely on data from our enterprise resource planning system to determine the appropriate payment arrangement and credit terms for each customer, which generally do not exceed 90 days. We evaluate the creditworthiness of potential new customers before entering into a sales contract with them and reassess the creditworthiness of all of our customers on an annual basis. For customers without a strong credit history, we require them to settle their accounts upon delivery.

### **Pricing**

The pricing for our coal products sold in the PRC is generally based on negotiations between the contracting parties that reflect market conditions. For our Australian operations, the pricing of our coal products is dependent on negotiations between the contracting parties, as well as prevailing market prices. There are no statutory price control schemes for coal in Australia. In both our PRC and Australian markets, to price our coal products, we consider the prevailing prices in the relevant local coal markets, the grade and quality of the coal, the rating and scale of the purchaser and our relationship with the purchaser. Our sales and marketing department monitors domestic and international market information, enabling us to keep abreast of pricing developments in our principal markets.

### **Transportation**

Most of our major coal customers are located in eastern China and our remaining domestic customers are located in southern and northern China. We deliver coal to our customers primarily by railways, and also by highways. With our private railway network, we are able to connect to the national railway system or deliver coal directly to Zouxian Power Plant. We also deliver our coal by domestic and international shipping routes.

We also ship coal on the national railway system to ports, such as Rizhao, for delivery to customers. Rizhao Port is our main port for shipping coal. We also use the Beijing-Hangzhou Grand Canal to ship coal on barges to customers located in the area serviced by the canal, primarily Jiangsu and Zhejiang. In Shanxi, we rely on the Yangshe Railway, which intersects the Tianchi Coal Mine, and trucks to deliver coal to Hebei, Shandong, Qinhuangdao and other nearby areas. We rely on the Baoshen Railway and trucks to deliver coal from Anyuan Coal Mine and Wenyu Coal Mine to Hebei and the surrounding areas.

We plan to construct a privately operated railway to connect Zhaolou Coal Mine with the national railway system. Before completing the construction, we will continue to rely on trucks to deliver coal from Zhaolou Coal Mine to the national railway and customers.

We transport Yancoal Australia's coal products to Newcastle Port and Gladstone Port in Australia at our cost using third parties' railway networks. These coal products are then exported to South Korea, Japan and other destinations by sea. Yancoal Australia owns a 27.0% interest in Newcastle Infrastructure Group ("NCIG"), a joint venture responsible for constructing and operating the third export terminal at Newcastle Port, which is the largest coal export port in New South Wales, and has a designed annual port capacity of 63.0 million tonnes through NCIG's facility. Yancoal Australia also had an annual port capacity of 3.3 million tonnes at Newcastle Port in 2015 through a facility owned by Port Warratah Coal Services ("PWCS") pursuant to an agreement between Yancoal Australia and PWCS and is entitled to 11.9 million tonnes from 2015. In addition, Yancoal Australia owns a 5.6% interest in Wiggins Island Coal Export Terminal Holdings Pty Limited, which is the parent company of the developer of the Wiggins Island Coal Export Terminal. Yancoal Australia has been allocated an annual port capacity of 1.5 million tonnes when the phase 1 is completed in 2015. We believe these allocated port capacities will support current export sales.

### **Mining process**

The geological characteristics of our reserves largely determine the coal mining method that we employ. We use two primary methods to mine coal: underground mining and open-pit mining.

#### *PRC underground mining operations*

Our PRC underground mining operations consist of four main steps: tunneling, coal extraction, transportation and coal preparation. The tunneling process is necessary for the construction of underground roadways, which are required for the installation of mining equipment. We conduct a majority of our tunneling using high-powered headers and use this method whenever geological conditions permit. The extraction process is undertaken by a standardized and fully mechanized longwall operation, which includes shearers that work in conjunction with conveyers to cut and transport the coal away from the longwall work face.

The shaft hoist system equipment that we use at most of our mines was imported. Coal is transported from the coal shaft either to a surface storage or directly to a coal preparation plant. In addition to the main coal shaft, our mines also have a service shaft and supplemental roadways and rail systems within the mines that provide a means of underground transportation for workers and equipment.

After raw coal is carried to the surface, it undergoes a mechanized selection process that separates coal from other mineral materials. A small portion of such selected coal is directly sold to customers as raw coal, and the remainder is transported to our coal preparation plants for further processing and classification to meet different requirements from our customers.

We employ the same mining operations in Anyuan and Wenyu Coal Mines except for the use of conveyers to transport the coal from the inclined shaft instead of shaft in our other PRC mines.

#### *Australian open-pit mining operations*

The open-pit mining process in Australia is a surface mining technique extracting coal from the earth by removal from an open-pit. Coal seams are mined in sequence after removal of overburden (consisting of topsoil and rock) covering the coal. Open-pit coal is found relatively close to the surface, similar to the open-pit mines in China. The extracted coal is then transported to surface stockpiles before it is sent to a Coal Handling & Preparation Plant (CHPP) for washing, processing and final coal product preparation. On completion of mining the open-pit mining area is rehabilitated by replacing the overburden into the pit and the area revegetated, leaving a final void.

#### *Australian underground mining operations*

With respect to underground mines in our Yancoal Australia mining operations, mining is conducted using a combination of continuous tunneling, longwall and "bord & pillar" operations. At the Austar underground operations, the coal seam is extracted using the longwall top coal caving method due to its large seam thickness. The extracted coal is transported from the underground operations through an inclined shafts utilising a series of conveyor belts to treatment facilities on surface for processing and final coal preparation.

## **Materials, Water and Energy Supply**

### PRC mining operations

The primary materials we use to conduct our coal mining and processing operations are steel to support work faces and underground tunnels, cement for the construction of underground tunnels and ground structures and water used in our production process. We procure steel primarily from Shandong Iron and Steel Group Co., Ltd. Jinan Branch and Laiwu Branch, Shandong Shiheng Special Steel Group Co., Ltd., Ansteel Wire Rope Co., Ltd. and Guizhou Steel Rope (Group) Co., Ltd., and cement primarily from Shandong Lucheng Cement Company, Ltd. and Shandong Luzhu Group Cement Company Ltd. We procure water primarily from the Yankuang Group pursuant to the Materials Supply Agreement and its supplemental agreements, and, to a lesser extent, from local water companies. The prices of steel, cement and water is set at market rates or determined through negotiations. We believe that we have well-established, cooperative relationships with our suppliers, enabling us to secure reliable supplies of materials required in our production process. We believe that a number of alternative suppliers exist for our key materials in our coal operations, accordingly, we do not foresee any difficulty in obtaining adequate supplies.

We use a significant amount of electricity in our operations. Even though we have not experienced any material disruptions in our electricity supply in the past, we acquired Hua Ju Energy to secure a stable supply of energy for Nantun, Xinglongzhuang, Baodian, Dongtan, Jining II, Jining III, Beisu and Yangcun Coal Mines and to reduce our electricity costs.

### Australian mining operations

Similar to our domestic coal mining and preparation operations, the primary materials we use in our Australian mining operations are fuel, steel, cement, explosives and water. We procure such materials primarily from local suppliers with which we have established long-standing relationships, and are able to procure sufficient materials for our mining and preparation operations.

## **Competition**

### PRC mining operations

Our primary market, the PRC domestic coal market, is characterized by numerous small-scale coal suppliers. Although the PRC coal market is segmented principally by geographic regions due to the wide distribution of coal reserves, the domestic market in China is dominated by a number of large-scale coal producers. We compete principally on the basis of the availability and cost of transportation, coal quality and timely deliveries.

Our PRC competitors primarily include a number of coal mines located in Shanxi, Shaanxi and Inner Mongolia. Certain of our competitors from these regions have substantial reserves and favorable geological conditions. However, these competitors incur significant transportation costs when they supply to their end-user customers located in eastern China. In addition to coal mines located in Shanxi, Shaanxi Provinces and Inner Mongolia Autonomous Region, we also compete with local mines located in close proximity to our customers. In addition, we expect to face increasingly intense competition among coal mining enterprises due to a significant increase in the amount of coal exported to China and as the number of large-scale coal producers increase as the result of ongoing coal industry consolidation. Although we have strengths in the quality of our coal product and our sales network, we may not be able to compete effectively with Shandong Energy in this region. Our failure to compete effectively may in turn materially and adversely affect our results of operations.

### Australian mining operations

We primarily compete with several large coal mining enterprises in Australia, including BHP Billiton, GlencoreXstrata, Rio Tinto, Anglo American and Peabody Energy Australia. We mainly export our coal production in Australia to Asian countries, including China, South Korea and Japan. We also compete with other mining enterprises located in China, Indonesia and Inner Mongolia, some of which are located in close proximity to our customers. Some of our competitors are large mining companies with a longer operating history, greater financial resources, stronger brand recognition and greater economies of scale as compared to our Company. However, we believe we are able to maintain our competitiveness through our cost-saving and capacity-expanding operations as well as our marketing of combined products.

### Seasonality

Our coal business is not affected by seasonality.

## **Quality control**

We have implemented a quality assurance program at each of our PRC coal mines to control quality throughout our coal operations from production to transportation. To further improve our coal preparation and control quality, we established a coal preparation management center in Shandong, in October 2013, to manage our preparation plants. In addition, our quality inspection division within our sales and marketing department conducts spot inspections on our coal production to maintain high quality standards.

Each of Nantun, Xinglongzhuang, Baodian, Dongtan, Jining II, Jining III, Beisu, Yangcun, Zhaolou and Tianchi Coal Mines has obtained the Quality/Environmental Management/Occupational Health and Safety Certificate.

Each of Nantun, Baodian, Dongtan, Jining II, Jining III Coal Mines has obtained Measurement Management System AAA certificate. We have been awarded a National Quality Management Award, a China Quality Tripod and an Asia-Pacific International Quality Gold Medal. In addition, we were awarded the Quality Excellence Award (Asian Recognition for Excellent in Quality Practice) by the Asian Network for Quality in 2012, which made us the only Chinese coal company which has ever won this prize. In 2015, we won the Global Performance Excellent Award-World Top Class selected by Asia Pacific Quality Organization.

Yancoal Australia has engaged Bureau Veritas, Societe Generale De Surveillance and ALS Laboratory Group to supervise and inspect the quality of the coal produced from the respective mines in Australia to ensure quality control and advise on quality improvement measures. In March 2015, we became the only company in the PRC coal industry to be recognized with the “China Quality and Credibility Commitment” designation.

## **Safety control**

In our PRC operations, we have implemented a safety control program to achieve the targets set in our internal guidelines for safety and risk control management and to maintain compliance with the PRC Coal Industry Law and the National Mining Safety Law in China. In Australia, our operations in New South Wales comply with the Coal Mine Health and Safety Act 2013 (NSW) and Occupational Health and Safety Act 2011 (NSW), our operations in Queensland comply with the Occupational Health and Safety Act 2011 (QLD) and Coal Mining Safety and Health Act 1999 (QLD) and our operations in West Australia comply with the Coal Mine Safety and Inspection Act 1994 (WA) and Occupational Health and Safety Act 1984 (WA).

Our safety control program combines close supervision and routine inspection of mining conditions with continual implementation of safety features and procedures at our mines and safety training for our production team. In addition, in our PRC operations, the compensation of the officers and managers of each division reflects the division’s safety record. Each of our mines has a safety inspection unit which is responsible for the supervision and inspection of our mining activities. We reward employees who report unsafe mining conditions to encourage accident prevention.

As a result of our safety control program, we have been able to maintain a zero fatality rate in our PRC operations since 2007 compared with the national average of 0.157 fatalities per million tonnes of coal produced in 2015, according to the State Administration of Work Safety of the PRC. In 2015, we produced approximately 49.1 million tonnes of coal in our PRC operations and did not experience any production accidents that involved serious work injuries or death. We have been continuously reviewing and evaluating our safety control and performance in Australia. With respect to our Australian operations in 2015, our lost time injury frequency rate, measured as the number of lost time injuries per million man-hours worked, was 1.6 for open-pit mines and 18.2 for underground mines. On April 15, 2014, an underground incident occurred at Austar Coal Mine and two employees died. The investigation by the Department of to determine the cause of the incident is currently ongoing. As of the date of this annual report, the cause of the incident has not been determined and we are working with the investigators of the Department Industry, Resources and Energy of New South Wales.

## **Environmental protection**

We are subject to PRC environmental protection laws and regulations which impose fees for the discharge of waste substances and require the payment of fines for serious pollution. PRC regulations also authorize government agencies to close any facility that fails to comply with orders to cease, or bring into compliance with relevant laws and regulations, operations that cause environmental damage. In addition, the operations of Yancoal Australia must comply with relevant Australian environmental protection laws and regulations.

### ***Railway Transportation Business***

In addition to transporting coal to support our own operations, we also provide railway transportation services to our customers, including the Yankuang Group, for fees. In 2015, we transported 16.0 million tonnes of coal on our railway network, representing a decrease of 3.5%, from 16.6 million tonnes in 2014. We generated sales income of RMB327.3 million from railway transportation services in 2015, representing a decrease of RMB46.3 million, or 12.4%, from RMB373.6 million in 2014. The cost of sales of our transportation business was RMB227.5 million in 2015, representing a decrease of RMB22.7 million, or 9.1% from that of 2014.

We own 15 steam locomotives, two heavy-duty rail motors and over 200 kilometers of railway tracks constructed for coal transportation that connect most of our coal mines with Zouxian Power Plant located in Jining City, Shandong. Our railway network also connects to two major national railways, namely, Beijing-Shanghai Railway and Yanzhou-Shijiugang Railway. Our railway network provides us with substantial control over a major means of transportation for our key product, allowing us to benefit from the synergies from coal production, sales and transportation. As of December 31, 2015, our railway transportation business had 3,180 employees.

We maintain ISO 9001 quality accreditation, environmental management certification (GB/T241001-2004), GB/T28001-2011 occupational safety and health certificate and GB/T19022-2003 management certification for the operation of our railway network.

### ***Coal Chemical Business***

Our coal chemical business focuses on the production of methanol, a liquid commodity that can be produced from coal or natural gas. We operate our coal chemical business primarily through Yulin Nenghua and Ordos Nenghua. Ordos Nenghua has completed construction of its 600,000-tonne methanol project and commenced the commercial production since January 2015. In 2015, we produced 167.1 tonnes of methanol and sold 160.8 tonnes of methanol. We generated sales income of RMB2,264.7 million in 2015, representing an increase of RMB1,069.2 million, or 89.4%, from RMB1195.5 million in 2014. The cost of sales of coal chemical business was RMB1,535.8 million in 2015, representing an increase of RMB666.5 million, or 76.7% from that of 2014. Our coal chemical facilities at Tianhao Chemicals ceased production since April 2013.

#### **Sales and marketing**

Our coal chemical sales are made pursuant to sales contracts that we enter into from time to time with customers. We sell our methanol exclusively in China and predominately to chemical producers in northern and eastern China and methanol distributors. We rely on regional highways to deliver our products.

#### **Pricing**

The pricing for our methanol product is generally based on negotiation between the contracting parties, taking into consideration prevailing market prices, market conditions and the customer's creditworthiness.

#### **Production process**

Yulin Nenghua. At Yunlin Nenghua's plant, raw coal is pulverized, cleaned and then fed to a gasifier bed where it reacts with oxygen and steam. The product is synthesized into crude methanol and then purified through distillation.

#### **Materials, water and energy supply**

Coal and coke oven waste gas are the primary materials in our methanol production. Production of methanol is reliant on thermal coal, which it currently sources from local coal mines owned by third parties. We also source water from a local reservoir for the methanol production.

#### **Quality control**

We have implemented a series of quality control measures for our coal chemical operations to ensure product quality. We obtained AAA measurement management system, ISO 9001 quality accreditation and ISO 14001 environmental management certification in November 2009 and subsequently renewed ISO 9001 quality accreditation and ISO 14001 environmental management certification in November 2012 and AAA measurement management system in October 2013. In August 2012, methanol produced by Yulin Nenghua, after review by the National Standardization Management Committee, was confirmed to be of a higher standard than the international standard ASTM D1152:2006, and was granted the Usage of International Standard Certificate. We perform regular inspections and maintenance on our methanol plants

## **Safety control**

For our coal chemical operations, we have implemented safety control measures in compliance with the People's Republic of China Production Safety Law, the People's Republic of China Regulations on the Safe Administration of Dangerous Chemicals and other safety guidelines for chemical manufacturers. We obtained ISO 18001 occupational health and safety certification in November 2009, which was renewed in November 2012.

## **Competition**

We compete with domestic methanol manufacturers in Shanxi and Shaanxi Provinces and the Inner Mongolia Autonomous Region. We have benefited from economies of scale as Yulin Nenghua's 600,000-tonne methanol project achieved optimal utilization of its facilities and Ordos Neng Hua's 600,000-tonne methanol plant commenced operations in January 2015.

## **Seasonality**

Our coal chemical operations are not affected by seasonality.

## ***Electric Power and Heat Supply Business***

As of the date of this annual report, we owned and operated seven power plants, which generate electricity for internal use and external sales. In 2015, we generated a total of 2,639.5 million KWh of electricity, 1,677.4 million KWh of which we sold to third parties. We generated sales income of RMB598.6 million in 2015, representing an increase of RMB357.1 million, or 147.9%, from RMB241.5 million in 2014.

Hua Ju Energy operates five coal-fired power plants whose main facilities consist of energy conversion CFB boilers and extraction and condensing steam turbines. The power plants at Hua Ju Energy have an aggregate installed capacity of 132 MW. In 2013, 2014 and 2015, Hua Ju Energy generated 992.8 million KWh, 901.2 million KWh and 960.1 million KWh, respectively, and sold 869.1 million KWh, 303.6 million KWh and 352.3 million KWh, respectively, to the local power grid company.

The power plants at Yulin Nenghua and Tianhao Chemicals were established with the primary intention to satisfy the power demand of the methanol projects of these two entities; we sell a small amount of electricity to third parties. These plants had an aggregate installed capacity of 60 MW as of the date of this annual report; however, Tianhao Chemicals has stopped generating electricity since January 1, 2012 due to the high cost of fuel, and we are in the process of disposing of the power plant together with Tianhao Chemical's methanol assets. In 2015, the power plants operated by Yulin Nenghua generated 265.8 million KWh of electricity, of which 122.2 million KWh was sold to third parties.

We commenced the construction of the Zhaolou Coal Mine power plant for Zhaolou Coal Mine in March 2010. The integrated power plant has two phases with a designed capacity of 300 MW for each phase. In November 2014, phase I commenced operation. In 2015, Zhaolou Coal Mine power plant generated 1,413.7 million KWh of electricity, of which 1,312.8 million KWh was sold to third parties. For further information on the Zhaolou Coal Mine power plants, please see "D. Property, Plant and Equipment — Methanol and Cogeneration Power Plants — Zhaolou Coal Mine Power Plants."

We commenced heat supply operations, which consist of the production and sale of heat, following our acquisition of Hua Ju Energy in 2009. In 2015, Hua Ju Energy generated 1.3 million steam tonnes of heat energy. Our coal mines consume the substantial majority of heat energy produced by Hua Ju Energy. We sold 120,000 steam tonnes of heat to third parties and generated sales income of RMB27.5 million in 2015.

## **Sales and marketing**

We consume a major portion of the heat generated by our power plants and, to a lesser extent, sell to the Yankuang Group. In addition to our own use and our sales to the Yankuang Group, we sold 45.0% of the electric power we produced to other end-users through power grids in 2015.



## **Pricing**

The pricing and adjustments for the on-grid tariff and the pricing of our heat products are determined in accordance with regulations set by price administration authorities.

## **Production process**

Yulin Nenghua. We select, break, grind and feed coal to a boiler where the coal is burned to generate steam, which is converted by steam turbines into electricity.

Hua Ju Energy. We recycle by-products of our coal mining operations, such as coal gangue and coal slurry, to generate electricity. Coal gangue and coal slurry are fed to a CFB boiler by means of a conveyer belt and fuel-feeding device where they are burned to generate steam, which is converted by steam turbines into electricity. The power plants of Hua Ju Energy are cogeneration systems that are able to produce heat simultaneously with power generation. Part of the steam produced in power generation is extracted from the steam turbines and provided to our mining operations via a heat supply system.

In the production processes, we filter the exhaust gas that we produce and recycle the cinder for future use.

Zhaolou power plant. Zhaolou power plant, located in Heze City, Shandong Province, is utilized by the Zhaolou coal plant of Heze Neng Hua. After crushing the coal fuel, it is transferred to the boiler and sent to the combustion chamber for burning. The combustion process generates heat and is transferred to water in the boiler. Water in the boiler is heated and produces high temperature, and high pressure steam, which runs the turbine that generates power.

## **Materials, water and energy supply**

Our power plants are all coal-fired power plants. The power plants of Hua Ju Energy generate electricity by recycling coal gangue and coal slurry. Yulin Nenghua currently sources thermal coal from local coal mines. Zhaolou uses mixed coal, gangue and slime generated from coal washing to generate power.

## **Quality control**

Hua Ju Energy obtained ISO 9001 quality accreditation and ISO 14001 environmental management certification in November 2003 and has maintained its certification since then. Yulin Nenghua obtained AAA measurement management system, ISO 9001 quality accreditation and ISO 14001 environmental management certification in November 2009. Zhaolou obtained ISO 9001 quality accreditation, ISO 14001 environmental management certification and GB/T28001 occupational health and safety management certification in December 2009.

## **Safety control**

Safety measures for our electric power and heat supply operations were designed to meet the requirement of the Electricity Law and other related laws.

## **Seasonality**

Our electric power operations are not affected by seasonality. Our heat supply operations are affected by seasonality and experience higher demand during winter.

## ***Equipment Manufacturing Business***

In 2015, we expanded to equipment manufacturing business after we acquired 100% of equity interest in Donghua Heavy Industry. We manufacture, sell, lease and maintain mechanical and electrical equipment, including among other, hydraulic supports, heading machine, scraper/belt conveyors and frequency converter and switch cabinet. In 2015, we manufactured 55,500 tonnes of hydraulic supports, 12 sets of heading machines, 25,000 tonnes of scraper/belt conveyors and 5,230 sets of frequency converters and switch cabinets, generating a revenue of RMB309.9 million.

## **Sales and marketing**

The equipment we manufactured in 2015 were primarily used in our own production and, to a lesser extent, sold to Shanxi, Shaanxi, Gansu, Inner Mongolian Autonomous Region, and Xinjiang Uighur Autonomous Region. We mainly use regional highways for transportation of our equipment products.

## **Pricing**

The pricing for our equipment products is primarily through negotiation with our customers after taking into account of market prices, market conditions and credibility of the customer. We entered into formal sales contract for sale of our products, which specified the price for the products.

## **Production Process**

The production process for our equipment manufacturing business mainly involves parts processing and assembling. Before the pre-treatment of the parts, we prepare the parts through de-rusting, shaping the steel plate through numerical controlled machines, cutting. After the pre-treatment, the parts are assembled through welding, heat treated before and after assembling and tested and inspected before shipment.

**Raw Material and Energy Supply** The major raw material for equipment manufacturing business mainly includes steel plates, high pressure plastic pipes, electro-hydraulic control system and wires. The production process mainly consumes electricity.

## **Quality Control**

Donghua Heavy Industry obtained ISO 9001-2008 and “CCC” products accreditation. Donghua Heavy Industry has been accredited as national measurement enterprise of second grade and qualified enterprise after national regular quality inspection. Donghua Heavy Industry has established a comprehensive quality control system, owned several advanced testing and inspection equipment and adopted multiple measures to test and inspect its products to ensure the quality and safety.

## **Safety Control**

Donghua Heavy Industry has established an safety management system which comprises safety management of production and technology. The quality inspection management center, department of production technology and department of products managements were established to oversee the safety matters and ensure the relevant safeties laws and measures are followed.

## **Competition**

Donghua Heavy Industry faces the competition from major well-known coal mining equipment manufacturers in the PRC market. Our products have started to present their strength in the market. Tianhao Chemicals’ ZY16000 and ZY 17000 hydraulic support for large mining height and high resistance were among the first class products in the domestic market; our ZY21000 hydraulic support sample machine was accredited with international advanced quality; our continuous belt conveyor was the first of its kind manufactured by domestic manufacturer; and our success in the research of visualized remote control system in heading machine has capability to carry the mining operation forward to an intelligent, high end and unattended operation.

## **Seasonality**

Our equipment manufacturing business are not affected by seasonality.

## ***Regulatory Oversight of Our Group***

### **Regulation of the PRC Coal Industry**

Mining activities in the PRC are also subject to the MLR. To establish a coal mining enterprise under the Coal Industry Law of the People’s Republic of China, amended in June 2013 (the “PRC Coal Industry Law”), the applicant must submit an application to the relevant department in charge of the coal industry. After obtaining approval to establish a coal mining enterprise, the applicant will be granted a mining permit by the MLR. After June 2013, applicants are not required to obtain the coal production permit and coal trading license. Coal mining companies are permitted to operate after safety inspection and relevant licenses and permits are obtained. The Mineral Resources Law of the PRC (the “Mineral Resources Law”) regulates any matters relating to the planning or the exploration, exploitation and mining of mineral resources. According to the Mineral Resources Law, all mineral resources in China, including coal, are owned by the State. Any enterprise planning to engage in the exploration, development and mining of mineral resources must obtain exploration rights and mining rights before commencing the relevant activities. The transfer of exploration and exploitation rights shall be subject to governmental approval pursuant to the PRC Coal Industry Law, the Mineral Resources Law, Measures for the Administration of Transfer of Exploration Rights and Mining Rights and other relevant regulations.

The following is a summary of the principal laws, regulations, policies and administrative directives to which we are subject.

Pricing Laws

Until 2002, the production and pricing of coal was generally subject to the close control and supervision of the PRC government, which centrally managed the production and pricing of coal. To transition from a planned economy to market economy practices, the PRC government eliminated the state guidelines for coal prices on January 1, 2002 and took other measures intended to establish a pricing mechanism that would reflect market demand. In December 2012, the State Council issued a guideline to further implement the market reform for thermal coal. Pursuant to the guideline, beginning in 2013, the PRC government discontinued the compulsory thermal coal supply contracts arrangement, which required coal producers to sell thermal coal to power generation enterprises at preferential prices set by the government. In addition, prices of thermal coal will be negotiated between power generation enterprises and coal producers, instead of pursuant to government-guided prices.

Regulation of fees and taxes

The table below sets forth material taxes and fees that are imposed upon coal producers in China, as well as reserves which we are required to set aside.

Item	Base	Rate
Corporate income tax	Taxable income	25%
Corporate income tax (for Anyuan Coal Mine and Inner Mongolia Xintai)	Taxable income	15%
VAT (for coal and other products)	Sales revenue	17%
VAT (for heat supply)	Sales revenue	13%
VAT (for coal transportation services)	Revenue from service	11%
Business tax (for other services)	Revenue from service	5%
City construction tax	Amount of VAT and business tax	7%
Education surcharge	Amount of VAT and business tax	3%
Local education surcharge	Amount of VAT and business tax	2%
Water conservancy fund	Amount of VAT and business tax	1%
Resource tax	Aggregate volume of raw coal sold or used <sup>(1)</sup>	Shandong Province: 4% Shanxi Province: 8% Inner Mongolia: 9%
Property tax (for domestic companies)	70% of the initial value of the property	1.2%

(1) The resource tax applicable to our coal operation in Shandong and Shanxi Provinces is calculated by multiplying the aggregate volume of raw coal sold and raw coal consumed in the production of clean coal by the applicable per tonne resource tax in the respective province.

Coal producers may be fined if they damage the environment, arable land, grasslands or forest areas. Under the Mineral Resources Law, if a mining enterprise’s mining activities result in damage to arable land, grasslands or forest areas, the mining enterprise must return the land to an arable state or plant trees or grass or take other restorative measures. The Mineral Resources Law and other applicable laws and regulations also state that anyone who causes others to suffer loss in terms of production or living standards is liable for the loss and must compensate the affected persons and remedy the situation.

Additionally, all coal producers are subject to PRC environmental protection laws and regulations which currently impose fees for the discharge of waste substances, require the payment of fines for serious pollution and provide for the discretion of the PRC government to close any facility which fails to comply with orders requiring it to cease or cure operations causing environmental damage.

### Foreign exchange laws

Provisions on Foreign Exchange Administration for Cross-border Guarantees and Operational Guidelines for Foreign Exchange Administration of Cross-border Guarantees (Hui Fa [2014] No. 29), promulgated by the SAFE on May 12, 2014, provide that when handling overseas lending and domestic guarantee business, without the approval of the Foreign Exchange Administration, the debtors shall not directly or indirectly transfer the funds under the guarantee back to the PRC for use through such methods as borrowing, equity investments, or securities investments in the PRC. The funds under the guarantee shall not be used for equity or debt investments, by overseas institutions or individuals directly or indirectly, in domestic institutions or individuals, including but not limited to the following circumstances:

- the debtor uses the funds under the guarantee to make, directly or indirectly, equity or debt investments in institutions incorporated within the PRC.
- the funds under the guarantee are used to acquire the equity of an overseas target company, of which over 50 percent of the assets are located within the PRC.
- the debtor uses the funds under the guarantee to make advance payments for trade in goods or trade in services, and the payment time is more than 1 year before the time of delivery of the goods or services and the amount of the advance payment exceeds USD 1 million and 30 percent of the total price of the sales and purchase agreement (for the export of large complete sets of equipment or contract services, the completed workload may be deemed as the delivery).
- the funds under the guarantee are used to repay the debt of the debtor or any other overseas company, while the original funds from the financing are transferred, directly or indirectly, back to the PRC in the form of equity or debt.

### Import and export laws

According to the Foreign Trade Law, the Cargo Import and Export Ordinance and the Administrative Measures of Coal Export Quota, coal exports prior to 2013 are subject to State control and required governmental approval.

Our company has not been authorized as a PRC coal exporter. Our coal exports are conducted through three export agents, namely China National Coal Industry Import and Export Corporation, China National Minerals Import and Export Company Limited and Shanxi Coal Import and Export Group Company.

Pursuant to the Administrative Measures of Coal Export Quota, the NDRC and the MOFCOM have been responsible for determining China's national coal export quota and allocating the quota among authorized coal exporters. Upon receiving a quota approval, authorized coal exporters may apply for coal export permits to the relevant authority designated by the MOFCOM. Authorized coal exporters are also required to report their monthly quota usage to the NDRC.

The regulations provided that quotas may be adjusted in the event of:

- a major change in the international market;
- a major change in domestic coal resources;
- an imbalance in the usage of the coal export quota by an authorized coal exporter compared to its allocation of the coal export quota; and
- other circumstances which require an adjustment to the coal export quotas.

On December 31, 2012, the MOFCOM and the General Administration of Customs issued the 2013 Catalog of Goods subject to the Export Permit Management, pursuant to which coke will not be subject to export quota management. According to the Catalogue of Goods subject to Export Licensing Administration in 2016 promulgated by the Ministry of Commerce and General Administration of Customs of the PRC on December 19, 2015, the export of coke does not subject to export quota management.

On August 29, 2013, the General Administration of Customs issued The Announcement of Tariff Adjustment on Certain Export Commodities such as Lignite, which adjust the zero tariff for lignite to 3%, effective from August 30, 2013. According to Tarriff Execution Plan for 2016 announced on December 28, 2016, the tarrif for lignite remains 3% in 2016.

The 2015 United Nations Climate Change Conference was held in Paris, France, on November 30, 2015. It was the 21st yearly session of the Conference of the Parties to the 1992 United Nations Framework Convention on Climate Change . China’s recent commitments on climate change includes the signing of climate change agreements with the United States and France; submitted an Intended Nationally Determined Contribution to the United Nations, pledging to have emissions peaks by 2030.

On October 10, 2014, the PRC General Administration of Customs promulgated the Announcement on Adjusting the Import Tariff Rates of Coal (Announcement of the General Administration of Customs No. 73, 2014), which provides that as of October 15, 2014, the provisional zero import tariff rate of anthracite (H.S. code: 27011100), coking coal (H.S. code: 27011210), bituminous coals other than coking coal (H.S. code: 27011290), other coal (H.S. code: 27011900) and briquettes and other fuels (H.S. code: 27012000) shall be abolished, and the most-favored-nation tariff rate of 3% (anthracite), 3% (coking coal), 6% (bituminous coals other than coking coal), 5% (other coal) and 5% (briquettes and other fuels) shall be resumed respectively.

On December 16, 2014, the MOF issued the 2015 Implementation Plan of Customs Taxation, which provides that the export custom tax rates of coal products, including anthracite, bituminous coal, coaking coal, brown coal, peat coal, coal-made solid fuel and other coals shall decrease from 10% to 3%.

#### Domestic trading regulations

Pursuant to the Amended Measures for the Regulation of Coal Operations promulgated by the NDRC on July 30, 2014, entities are required to file their information of coal operations with local authorities within 30 business days after they obtained business license.

#### Environmental protection

China has promulgated a series of laws and regulations which establish national and local legal frameworks for environmental protection. These laws and regulations include standards applicable to emission controls, discharges of wastes and pollutants to the environment, generation, handling, storage, transportation, treatment and disposal of waste materials by production facilities, land rehabilitation and reforestation.

The PRC Environmental Protection Law requires that enterprises, public institutions, and other business operators that discharge pollutants shall adopt measures to prevent and control pollution and damage to environment caused by waste gas, waste water, waste residue, medical wastes, dust, malodorous gases, radioactive substances, noise, vibration, optical radiation, electromagnetic radiation, and other substances generated in their production, construction, and other activities. Pollutant discharging entities under intensified supervision shall install and use monitoring equipment in accordance with the relevant provisions of the state and the monitoring norms, ensure the normal functioning of monitoring equipment, and preserve the original monitoring records. On April 24, 2014, the Standing Committee of National People’s Congress passed the Amended Environmental Protection Law, pursuant to which, effective January 1, 2015, more responsibility has been imposed on local governments and unlimited fines will be imposed on polluters. In addition, projects without environmental evaluation in accordance with relevant laws are not allowed to commence construction.

On September 10, 2013, the State Council issued the Action Plan for Prevention and Control of Atmospheric Pollution (the “Action Plan”), pursuant to which the PRC government plans to devote more efforts to prevent and control atmospheric pollution. On September 17, 2013, the State Council further issued the Rules for the Implementation for the Action Plan for Prevention and Control of Atmospheric Pollution in Beijing-Tianjin-Hebei metropolitan region, pursuant to which the PRC government aims to reduce atmospheric pollution and improve air quality.

According to the Law on Prevention and Control of Water Pollution of the PRC, and the Administrative Regulations on the Levy and Use of Discharge Fees, any new construction projects which directly or indirectly discharge pollutants to water, such as coal mines and coking plants, must conduct an environmental impact assessment. Every new production facility must be equipped with wastewater processing facilities which must be put in use together with the production facilities. Construction projects that discharge pollutants into water shall pay a pollutant discharge fee in accordance with state regulations.

On August 29, 2015, the Law on Prevention and Control of Atmospheric Pollution (the “Atmospheric Pollution Law”) was amended and promulgated by the Standing Committee of National People’s Congress of the PRC, which was implemented on January 1, 2016. The Atmospheric Pollution Law has, among other things, set standards, plan and timeline to reach the atmospheric pollution control targets, provide detailed regulations on major pollution sources and impose stringent requirements to control the pollution from coal-fire, automobile, vessel and volatile organic compounds.

The rehabilitation of mining sites is another priority of the PRC government. Under the Law of Land Administration of the PRC as amended on August 28, 2004, the Regulation on Land Reclamation effected on March 5, 2011 and the Implementation Measures on the Regulation on Land Reclamation effected on March 1, 2013, coal producers must undertake measures to restore a mining site to its original state within a prescribed time frame if their mining activities result in damage to arable land, grassland or forest. The rehabilitated land must meet rehabilitation standards, as required by law from time to time, and may only be subsequently used upon examination and approval by the land authorities.

In addition to the PRC environmental laws and regulations, China is a signatory to the 1992 United Nations Framework Convention on Climate Change and the 1998 Kyoto Protocol, which propose emission targets to reduce greenhouse gas emissions. The Kyoto Protocol came into force in 2005. At present, the Kyoto Protocol has not set any specific emission targets for certain countries, including China.

### Mining safety

On November 18, 2013, the State Council promulgated Several Opinions on Promoting the Steady Development of the Coal Industry, which contains the PRC government's policies with respect to the administration of coal mining and exploration.

According to the Measures for Implementing Work Safety Permits in Coal Mine Enterprises issued by the SAWS, a coal mine enterprise without a work safety permit may not engage in coal production activities. Coal mining enterprises and their mines that do not satisfy the safety conditions set forth in this document, or those that violate the provisions of this document, may be punished by fines, warnings, temporary suspension of the work safety permit, mandatory remediation measures, orders to cease production and cancellation of the work safety permit. Coal mine enterprises that remain compliant with the requirements set in these documents may apply for administrative approval to extend the validity period of their Work Safety Permits.

The Special Regulations by the State Council on Preventing Work Safety Related Accidents in Coal Mines were promulgated and entered into effect on September 3, 2005. These regulations specify that coal mine enterprises are responsible for preventing coal mine work safety-related accidents. If a coal mine has not obtained, in accordance with the law, a mining right permit, work safety permit or business license and if the mine manager has not obtained, in accordance with the law a mine manager safety qualification certificate, the coal mine may not engage in production. Coal mining enterprises should establish a sound system for the detection, elimination, treatment and reporting of latent work safety-related dangers. If a major latent work safety-related danger exists in a coal mine, the enterprise should immediately suspend production and eliminate the latent danger. Coal mining enterprises should provide their personnel working underground and their special operation personnel with safety education and training in accordance with relevant state regulations. The person in charge of a coal mine and the production and operation management personnel should go into mines and act as foremen on a rotating basis in accordance with state regulations, and a file recording their entry into the mine should be maintained.

In addition, the SAWS and SACMS issued the Implementing Measures for the Detection and Elimination of Latent Dangers in Coal Mines and the Rectification and Closure of Such Mines (for Trial Implementation) on September 26, 2005. On October 31, 2005, the SAWS issued the Guiding Opinions on Persons in Charge of Coal Mines and Production and Operation Management Personnel Going into Mines as Foremen. The SAWS and the MOF jointly issued the Incentive Arrangement for Report on Working Safety on May 2, 2012, which encourages reporting on material accident hazards on working safety systems and other illegal activities. In December 3, 2015, the SAWS and SACMS issued the Standards in Judging the Major Latent Work Safety Related Dangers for Accident.

The SAWS, the SACMS and the All China Federation of Trade Unions jointly issued the Rules regarding the Working Safety Construction of Coal Mine Working Teams in June 2012, which requires coal mining enterprises to promote working safety target management and improve the salary structure to reflect the combination of working safety, production and profits. In addition, coal mining enterprises are required to improve working environments and labor protection facilities, provide employees with labor protection articles and occupational health examinations, establish occupational health files for employees and provide relevant remuneration for workers engaging in hazardous works.

### Coal mining industry and resources integration

Several measures have been enacted by various PRC government and provincial authorities to promote the integration and enhancement of mineral resources to maximize domestic coal production and encourage developmental efficiency.

The General Office of the Shandong Provincial Government issued the Notice to Implement Circular Guo Fa Ban [2006] No. 108 and Notice to Effectively Implement Integration of Mineral Resources (Lu Zheng Ban Fa [2007] No. 37), on June 19, 2007, which further implement Circular Guo Fa Ban [2006] No. 108 and promote the integration of mineral resources in Shandong Province. In addition, the Shandong Provincial Government issued the Notice to Deepen Integration Works of Mineral Resources (Lu Zheng Ban Fa [2010] No. 1), on January 4, 2010, which requires further promotion of integration of mineral resources, reduces the number of mines and mining approvals, and enhances intensive production in Shandong Province.

The government authorities of Inner Mongolia issued the Notice of Printing and Distributing the Work Plan of Mergers and Reorganizations of Coal Mining Enterprises (Nei Zheng Fa [2011] No. 32) on March 15, 2011, which sets forth the guiding principles, integrative approach, applicable policies, regulations and working requirements for coal resources in the region. By the end of 2013, the notice indicates that coal mining enterprises located in Inner Mongolia Autonomous Region must achieve production of 1.2 million tonnes per annum (three million tonnes per annum may apply to certain regions upon certain conditions) or be required to merge with other enterprises. Enterprises with a production capacity of more than five million tonnes of raw coal, among others, or enterprises with at least either one underground coal mine with a singular well production capacity of more than 1.2 million tonnes or an open-pit coal mine with a singular well production capacity of more than three million tonnes, subject to certain operational safety conditions, will be given preference as entities into which other smaller entities may merge.

In addition, the government authorities of Inner Mongolia Autonomous Region issued the Notice of Working Well on the Related Issues Concerning Integration of Coal Resources (Nei Zheng Ban Fa [2011] No. 92) on October 9, 2011, which sets forth supplemental information on the determination of the status of coal mining entities and the scope of coal resources to be integrated in the region.

The government authorities of Shanxi Province issued the Advices on Deepening the Reform of Coal Mining Management System (Jin Fa [2015] No. 3), which requires to accelerate the optimization of the disposition of regional coal industry and encourage coal mining enterprises and groups, on voluntary basis, to realize the integration of coal mining business through acquisition, disposal, participating in investment, merger or other manners, as well as well resolve the following-up issues after the integration of coal resources and merger and acquisitions of coal mines.

The National Energy Administration of the PRC issued the amended Coal Mining Industry Policy in February 2013 requesting public comment. The policy aims to further implement the reform of coal mining enterprises and market-oriented reforms.

These mining industry and resources integration regulations will affect the production capacity and rates of our mines that are located in the particular provinces or regions.

### **Regulation of the Australian Coal Industry**

Our operations in Australia are subject to laws and regulations of general application governing mining and processing, land tenure and use, environmental requirements, including site-specific environmental licenses, permits and statutory authorizations, industrial relations, workplace health and safety, trade and export, competition, access to infrastructure, foreign investment and taxation. These regulations are implemented by various federal, state and local government departments and authorities, including at a federal level the Department of Industry and Science, and the Department of the Environment.

#### *Environmental and planning issues*

Our mining operations in Australia are regulated by federal, state and local governments with respect to environmental issues (such as water quality, air quality, dust impact, noise impact) and planning issues (such as approvals to expand existing mines or to develop new mines or to change mining interests). Australian state governments require coal companies to post deposits or give other security on the land which is being used for mining and exploration, with those deposits being returned or security released after satisfactory remediation is completed.

State and territory governments are the primary environment and planning regulators for mining operations. The particular provisions of the various state and territory environment and planning legal regimes vary depending upon the jurisdiction. Despite variation in details, each state and territory has a system involving broadly at least two major phases, including: (i) obtaining major environment/planning developmental approval addressing planning and significant environmental issues and (ii) obtaining pollution control approvals regarding pollution control issues such as emissions to the atmosphere; emissions in waters; noise impact, impact from blasting; dust impact; and the generation, handling, storage and transportation of waste and other environmental licenses related to issues such as water extraction and use and Aboriginal heritage.

The federal environmental protection regime will apply if matters of national environmental significance are likely to be significantly impacted. If so, a referral must be made to the Department of the Environment and federal regulatory approval may be required. Most coal projects require such federal approval.

### Work Health and Safety | Occupational Health and Safety

The Commonwealth, states and territories adopt their own work health and safety (**WHS**) laws in each Australian jurisdiction.

The WHS Laws have commenced operation in New South Wales, Queensland, the ACT, the Northern Territory, South Australia, Tasmania and in Commonwealth jurisdictions, although it should be noted that the WHS Laws are not fully harmonized with certain jurisdictions. However, Western Australia and Victoria are yet to implement the new laws. These jurisdictions have occupational health and safety (**OHS**) laws in place.

#### WHS ( New South Wales, Queensland)

Under the WHS Laws, a person conducting a business or undertaking must ensure, as far as is reasonably practicable:

- (a) the health and safety of its “workers” whilst they are engaged at work in the business or undertaking; and
- (b) that other persons are not put at risk from the conduct of the business or undertaking.

Workers are defined to include employees, contractors, subcontractors and volunteers.

In respect of workers employed or engaged to perform work in a mine, a person conducting a business or undertaking must take reasonably practicable steps to ensure that workers are safe from injury by conducting a risk assessment of the workplace and, having regard to the risks identified in the assessment, take all reasonably practicable steps to:

- (a) provide a safe working environment without risks to health and safety;
- (b) provide and maintain safe plant and structures, including machinery;
- (c) provide and maintain safe systems of work, including safety equipment, safe plant and work materials;
- (d) provide adequate facilities;
- (e) the safe use, handling and storage of plant, structures and substances;
- (f) appropriate information, instruction, training and supervision that is necessary to protect all persons from risks to their health and safety; and
- (g) monitoring the health of workers and conditions at the workplace for the purposes of preventing illness or injury of workers.

There is also an obligation for a person conducting a business or undertaking to consult with its workers (and other WHS duty holders) on WHS matters.

#### OHS (Western Australia)

Western Australia is still operating under a local OHS regime. Whilst this regime is similar to the WHS regime and requirements under WHS Laws as set out above, there are notable differences in terms of specific requirements under OHS legislation, regulations and associated penalties for non-compliance.

In relation to persons employed in a mine in Western Australia, an employer must, so far as is practicable, ensure that such persons are safe from injury by providing a safe working environment and systems of work such that employees are not exposed to hazards; safety machinery; safety equipment, plant and work materials; and appropriate information, instruction, training and supervision.



There is also a requirement for an employer to consult and cooperate with safety and health representatives (if any) and other employees at the workplace, regarding OHS matters.

#### Coal Industry Specific Legislation (All Relevant/Applicable States)

In recognition of the specialized nature of mining and mining activities, specific work health and safety obligations have been mandated under law and legislation that deals specifically with the coal mining industry. Mining employers, owners, directors and managers, persons in control of work places, mine managers, supervisors and employees are all subject to these duties.

#### Workers' Compensation (All Relevant/Applicable States)

It is mandatory for an employer to have insurance coverage with respect to the compensation of injured workers (workers' compensation insurance). Similar coverage is in effect throughout states and territories in Australia which is of a no-fault nature and which provides for benefits up to a prescribed level. The specific benefits vary by jurisdiction, but generally include the payment of weekly compensation to an injured employee, together with payment of medical, hospital and related expenses. The injured employee may have a right to sue his or her employer for further damages if a case of negligence can be established (but on the condition that the injured employee waives his or her right to the insurance coverage).

#### Foreign investment

As a foreign government investor under Australian law Yancoal will be required to obtain Australian Government approval before making a direct investment in Australia (regardless of the value of the investment). A direct investment includes any acquisition of an interest of 10 per cent or more of any asset or business or any acquisition of an interest of less than 10 per cent where that acquisition amounts to a strategic stake in the target, or allows the acquirer to influence or control the target.

Foreign government investors must also obtain Australian Government approval before starting a new business in Australia, or acquiring an interest in land in Australia. An interest in land includes any interest in a prospecting, exploration, mining or production tenement.

#### **Power generation industry**

##### The Electric Power Law and the Electric Power Regulatory Ordinance

The Electric Power Law of the PRC (the "Electric Power Law") sets out the regulatory framework of the power industry. The Electric Power Law encourages power plant operators to focus on environmental protection and adopt new technology to decrease waste discharge.

In 2005, the State Council promulgated the Electric Power Regulatory Ordinance. The Electric Power Regulatory Ordinance sets forth regulatory requirements for many aspects of the power industry, including, among others, the issuance of electric power business permits, the regulatory inspections of power generators and grid companies and the legal liabilities resulting from violations of the regulatory requirements.

##### Approvals and licenses for power plants

Applications for all new coal-fired power plants are required to be submitted to the NDRC for approval, as well as to the State Council for significant power plant projects. According to the Provisions on the Administration of Electric Power Business Licenses, applicants are also required to obtain requisite permits, including an Electric Power Business for Power Generation and approvals related to plant site, land use rights, construction and the environment.

##### Pricing

Since 1996, the Electric Power Law has set forth general principles for determining power tariffs. The Interim Provisions for the Administration of Grid Power Price promulgated by NDRC states that tariffs are to be formulated to provide reasonable compensation for costs and a reasonable return on investment, to share expenses fairly and to promote the construction of power projects. With the exception of grid power prices set by governmental bids or power plants that produce alternative energy, grid power prices of new power plants within the same region should be uniform. The on-grid tariffs for planned output and excess output are subject to a review and approval process involving the NDRC and the provincial price bureaus. In 2004, the NDRC, with the approval of the State Council, issued a policy to link thermal coal and power prices. This policy allows on-grid tariffs to increase if the average price of coal increases by more than 5% within a six-month period.

### Safety

In accordance with the Measures for Supervision and Administration of the Safe Production of Electricity, issued by the NDRC, power plants shall establish a sound power generation production responsibility system in accordance with relevant national laws, regulations, measures and standards on safety production, enhance the management of power generation, perfect production conditions for power generation, and ensure production safety for power generation.

### **Coal chemical processing industry**

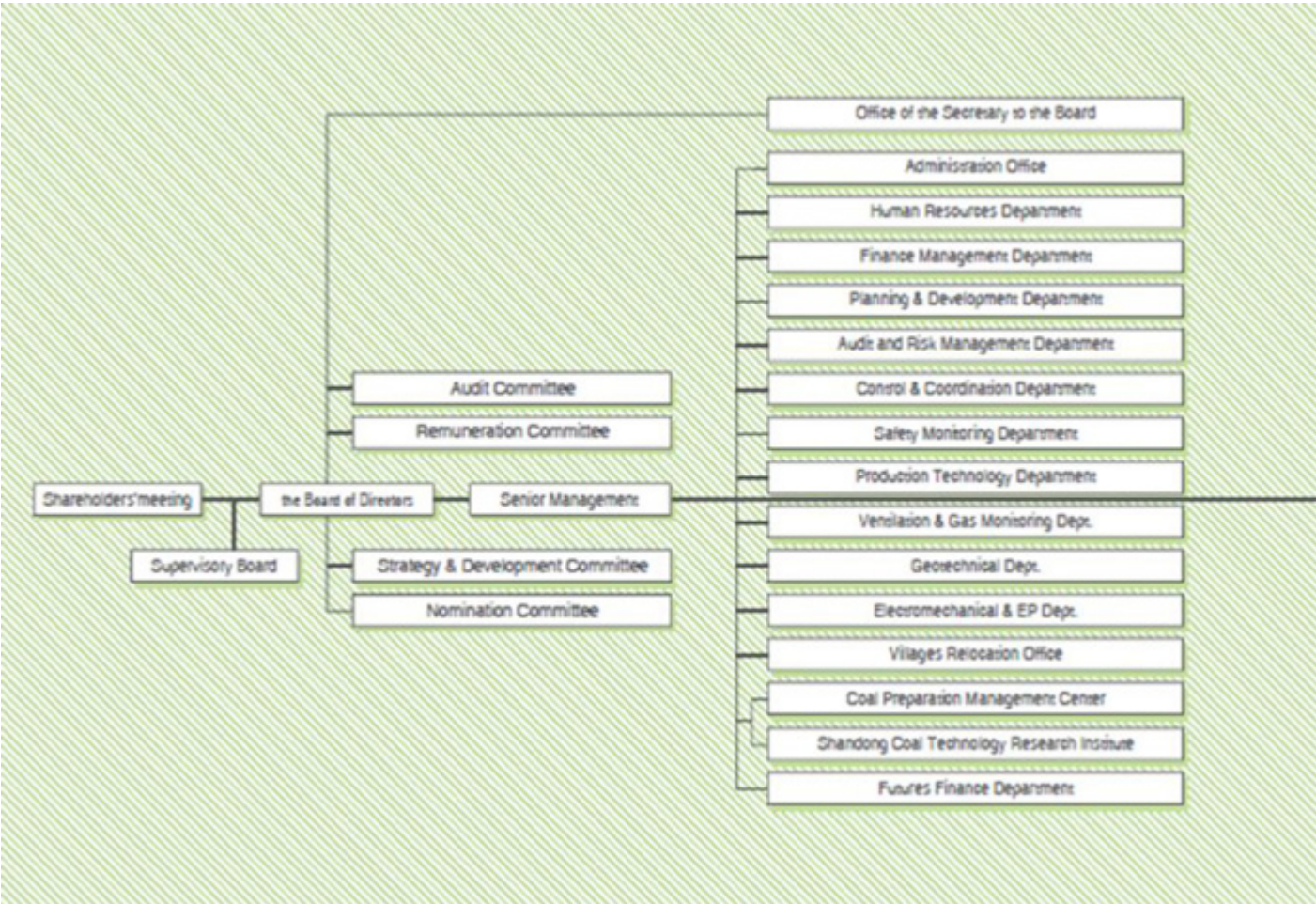
The PRC Coal Industry Law, encourages and supports coal mining enterprises and other enterprises to produce both coal and electricity, coking coal and coal chemicals. According to the Enterprise Income Tax Law (the “EIT Law”) and its implementation regulations, enterprises that produce products which are not restricted by the State and satisfy State and industry standards by using resources encouraged by industrial policies of the State are eligible for preferential tax treatment. If an enterprise uses any of the materials that are listed in the Catalogue of Income Tax Preference for Enterprises of Comprehensive Utilization of Resources as a major raw material in its product, 90% of the total income derived from such product will be treated as taxable income under the preferential tax arrangement. Coke oven gas, one of the primary raw materials at one of our methanol production facilities, is one of the materials listed in the catalogue.

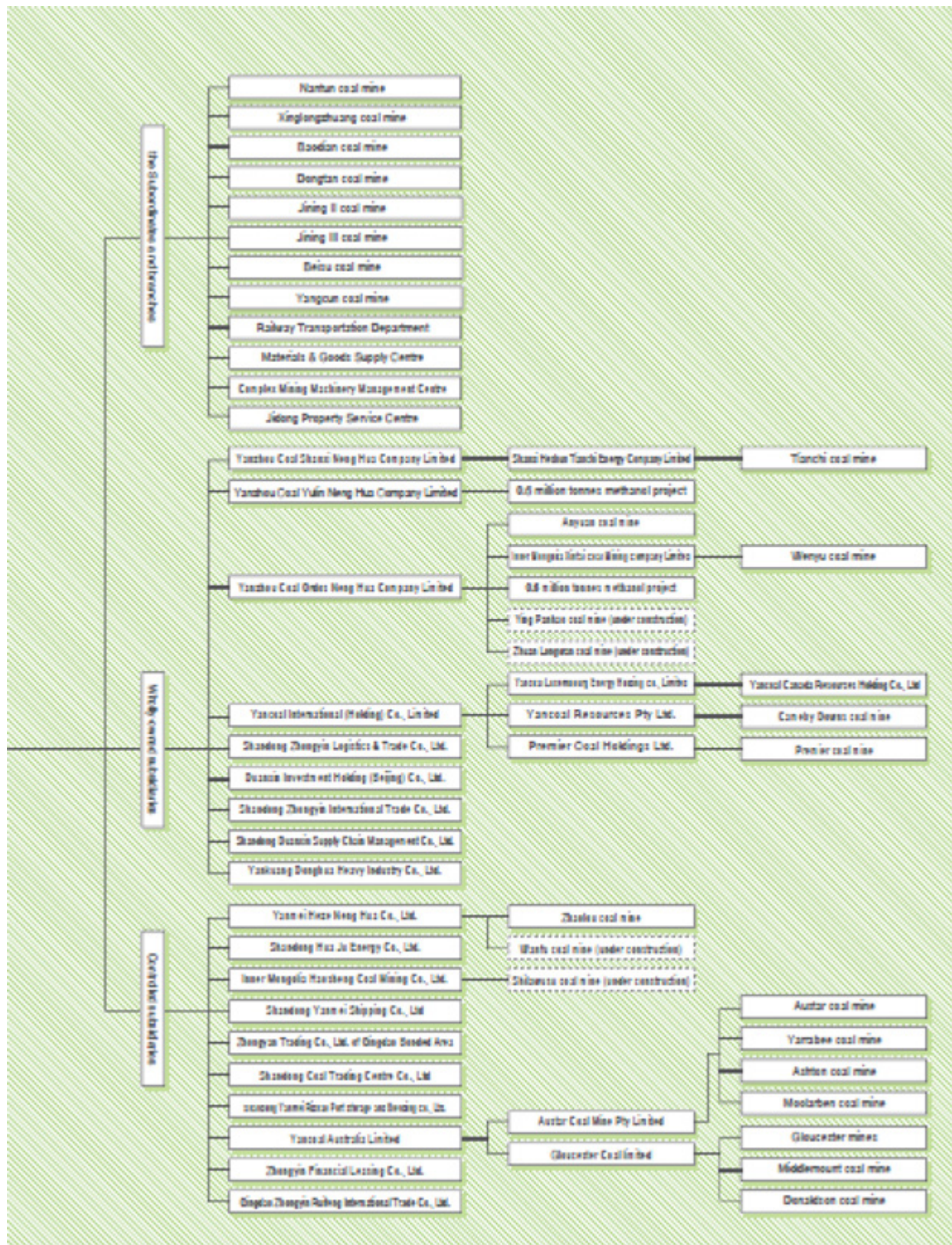
The PRC government aims to promote the healthy development of coal chemical industry during the Twelfth Five-Year through the development of proprietary intellectual property rights and the construction of demonstration projects. In addition, the PRC government imposed stringent entrance standards and requirements for environmental protection for the consumption of energy, coal and water for coal chemical demonstration projects.

### **C. Organizational Structure**

As of December 31, 2015, our Company consisted of 16 departments.

The following chart shows our departments and simplified corporate structure as of December 31, 2015:





## **D. Property, Plant and Equipment**

### ***Real Property and Leasehold Property***

As of December 31, 2015, the net book value of our property, plant and equipment was RMB45,616.0 million. The properties for which we own land use rights in China occupy an area of approximately 8.17 million square meters, while the coalfields to which we possess mining rights in Australia occupy an area of approximately 109.9 million square meters. Under PRC law, land use rights for properties in China are granted for 50 years commencing from the respective grant dates of such land use rights and are freely transferable. In addition, land are held by Yancoal Australia either as freehold or leasehold interests pursuant to Australian law.

As of the date of this annual report, we have not obtained certain land-use rights and building ownership certificates in China. In addition, we have not completed the registration procedure with relevant real estate administrative authorities with respect to certain properties we lease in China. We do not expect that our rights to use or occupy such properties will be challenged by third parties and as of the date of this annual report, we are not aware of any administrative or legal action with respect to these properties. However, we are prohibited from the transfer, lease, mortgage, or disposal of such properties until we obtain the relevant real estate or building ownership certificates.

### ***Coal Mines and Coal Production Facilities***

Nantun, Xinglongzhuang, Baodian, Dongtan, Jining II, Jining III, Beisu and Yangcun Coal Mines are all located in the southwestern part of Shandong Province. Except for Yangcun Coal Mine, all of these mines are connected by our railway network, which directly connect to our customers or the PRC national railway or highway systems. We acquired Jining II Coal Mine in 1998 and Jining III Coal Mine in 2001. We acquired Heze Nenghua, the operator of Tianchi Coal Mine in 2006 and subsequently the mining rights of Zhaolou Coal Mine through Heze Nenghua in 2008. Our wholly owned subsidiary, Ordos Neng Hua, acquired Anyuan Coal Mine in 2010 and acquired the mining rights of Zhuanlongwan coalfield through public bidding in 2011. In addition, Ordos Neng Hua acquired 80% of the equity interest in Inner Mongolia Xintai in 2011, which has operated Wenyu Coal Mine since July 2011. In May 2012, we purchased from Yankuang Group and Beisu Company all of the assets and liabilities of Beisu Coal Mine and Yangcun Coal Mine, including mining rights, building ownership certificates, mining and related equipment and other fixed assets.

We acquired Austar Coal Mine in Australia in 2004, and we acquired the entire equity interest in Yancoal Resources (formerly Felix) through Yancoal Australia in 2009, which operates Ashton Coal Mine, Yarrabee Coal Mine and Moolarben Coal Mine. We acquired an additional 30% of the equity interest in the Ashton Coal Mine Joint Venture and disposed of 51% of the equity interest in the Minerva Coal Mine Joint Venture in 2011. On September 30, 2014, we acquired an additional 10% of the equity interest in the Ashton Coal Mine Joint Venture, which become wholly owned subsidiary of Yanzhou Australia after the acquisition. In August 2011, we acquired the entire equity interest of both Syntech Holdings Pty Ltd. and Syntech Holdings II Pty Ltd., which operate the Cameby Downs Coal Mine and have five exploration tenements that can be potentially developed. In September 2011, we acquired the entire equity interest of both Premier Coal, which operates the Premier Coal Mine and Wilga Exploration Area, and Premier Char. We completed the merger with Gloucester in June 2012, which turned Gloucester a wholly-owned subsidiary of Yancoal Australia. As of December 31, 2015, we own (either wholly or as majority joint venturer) nine mines and four advanced-exploration stage projects in Australia.

As of the date of this annual report, we have obtained or in the process of obtaining the following material approvals, permits and licenses for our coal projects in China:

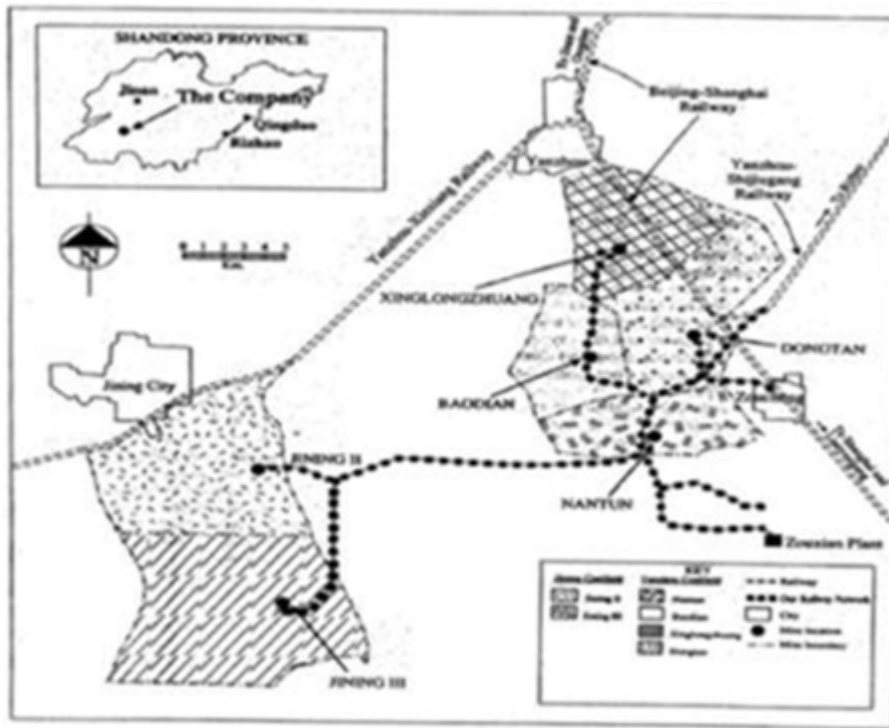
- we obtained the approval from NDRC for Zhuanlongwan projects;
- we are in the process of obtaining project approval for Yingpanhao Project and Shilawusu Project; and
- we obtained the mining permit for Wanfu Project in July 2015.

In addition to the above, a number of material Australian regulatory approvals, permits and licenses are pending, outstanding, have not been applied for as yet or have expired, including:

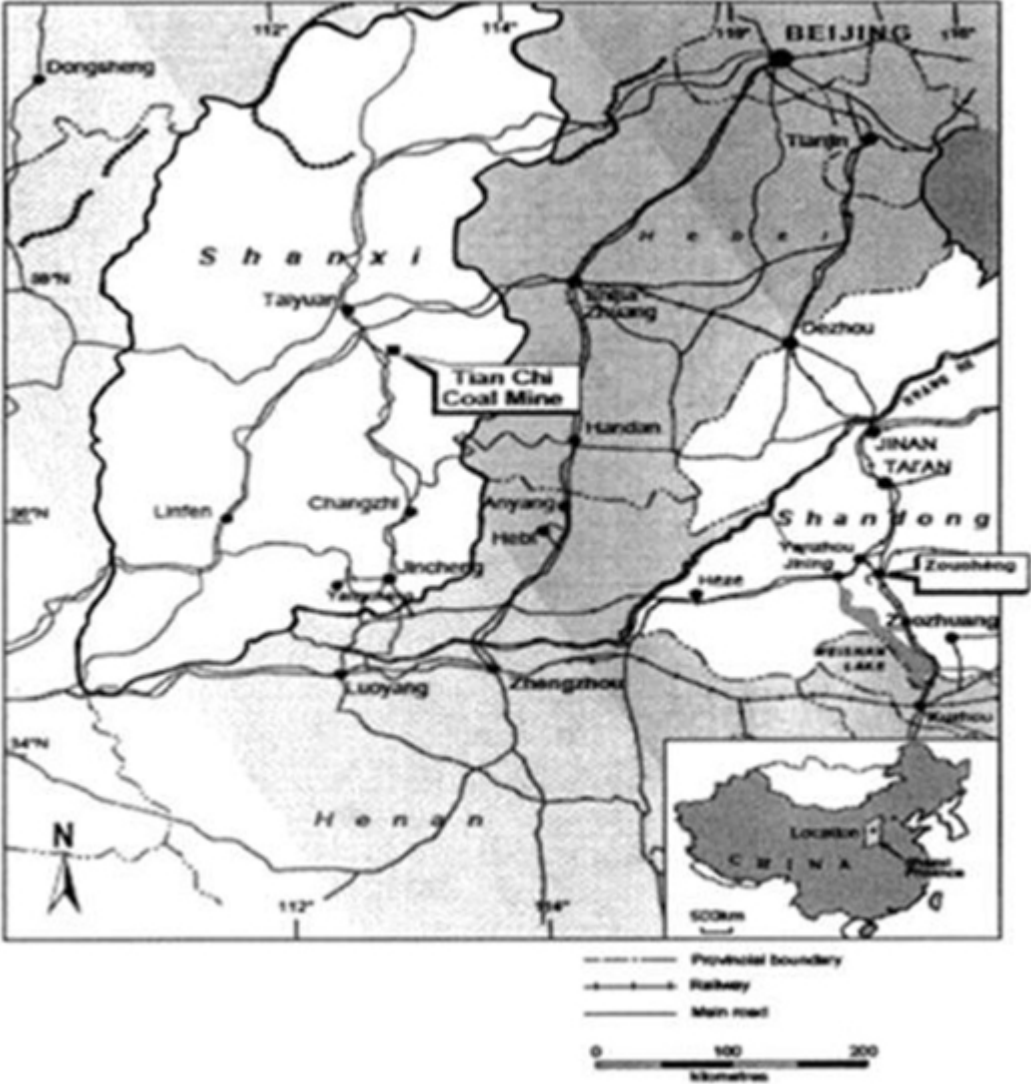
- surface mining leases for the infrastructure area at Austar, the tailings dam at Ashton, the Tasman Extension Area and the Stratford extension project; and
- the NSW Land & Environment Court has granted approval for the proposed Southeast open-cut project of the Ashton Coal Mine, condition upon the acquisition of a key property from a private individual prior to the commencement of development.

We operate substantially all of our mines either directly or through our subsidiaries and we have contracted the mining operations at Anyuan, Wenyu and Cameby Downs Coal Mines to third party contractors.

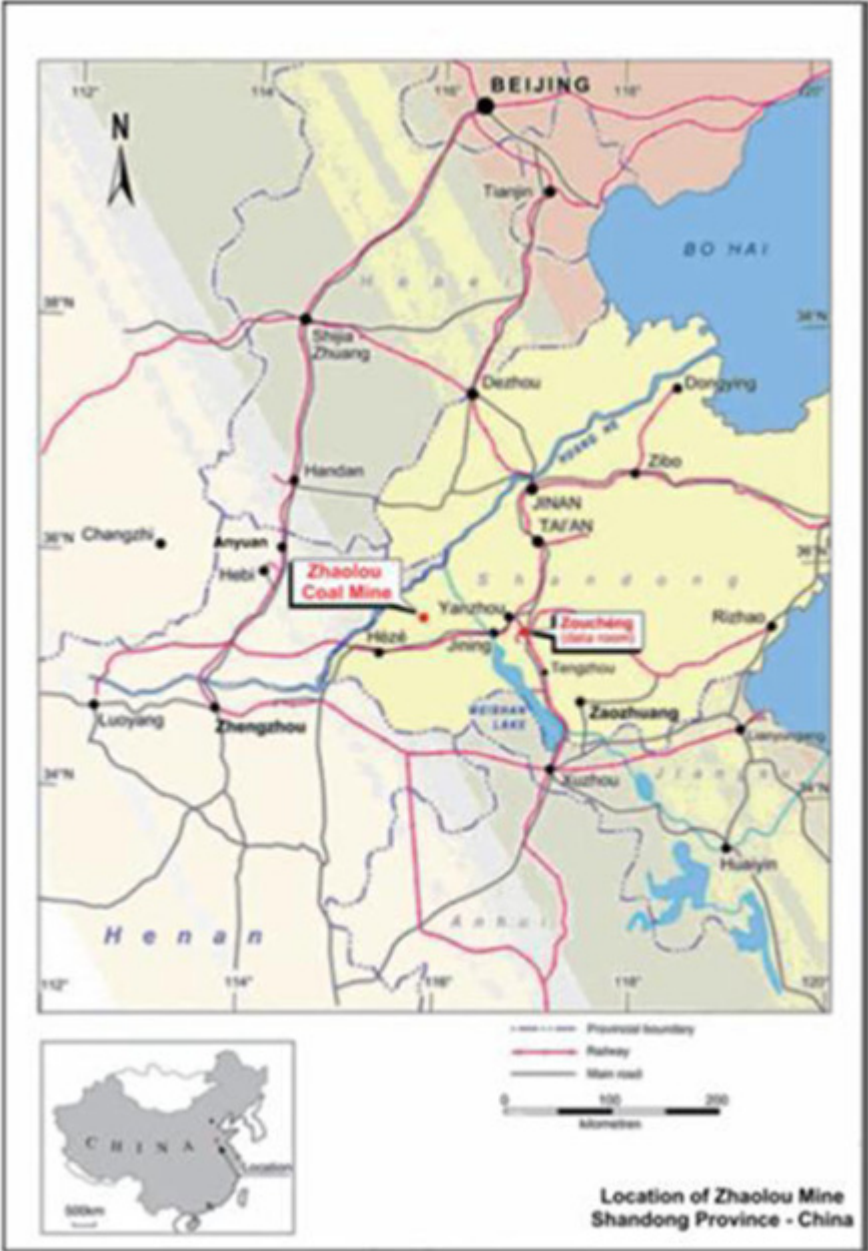
The map below shows the location of Nantun, Xinglongzhuang, Baodian, Dongtan, Jining II, Jining III Coal Mines and our railway system:



The map below shows the location of Tianchi Coal Mine:

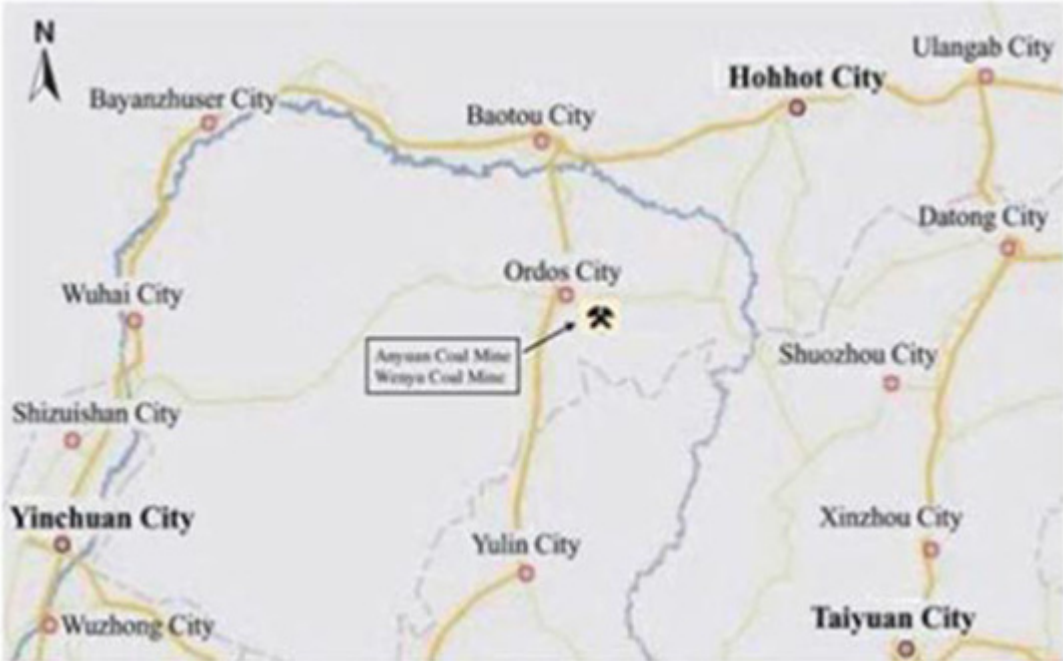


The map below shows the location of Zhaolou Coal Mine:

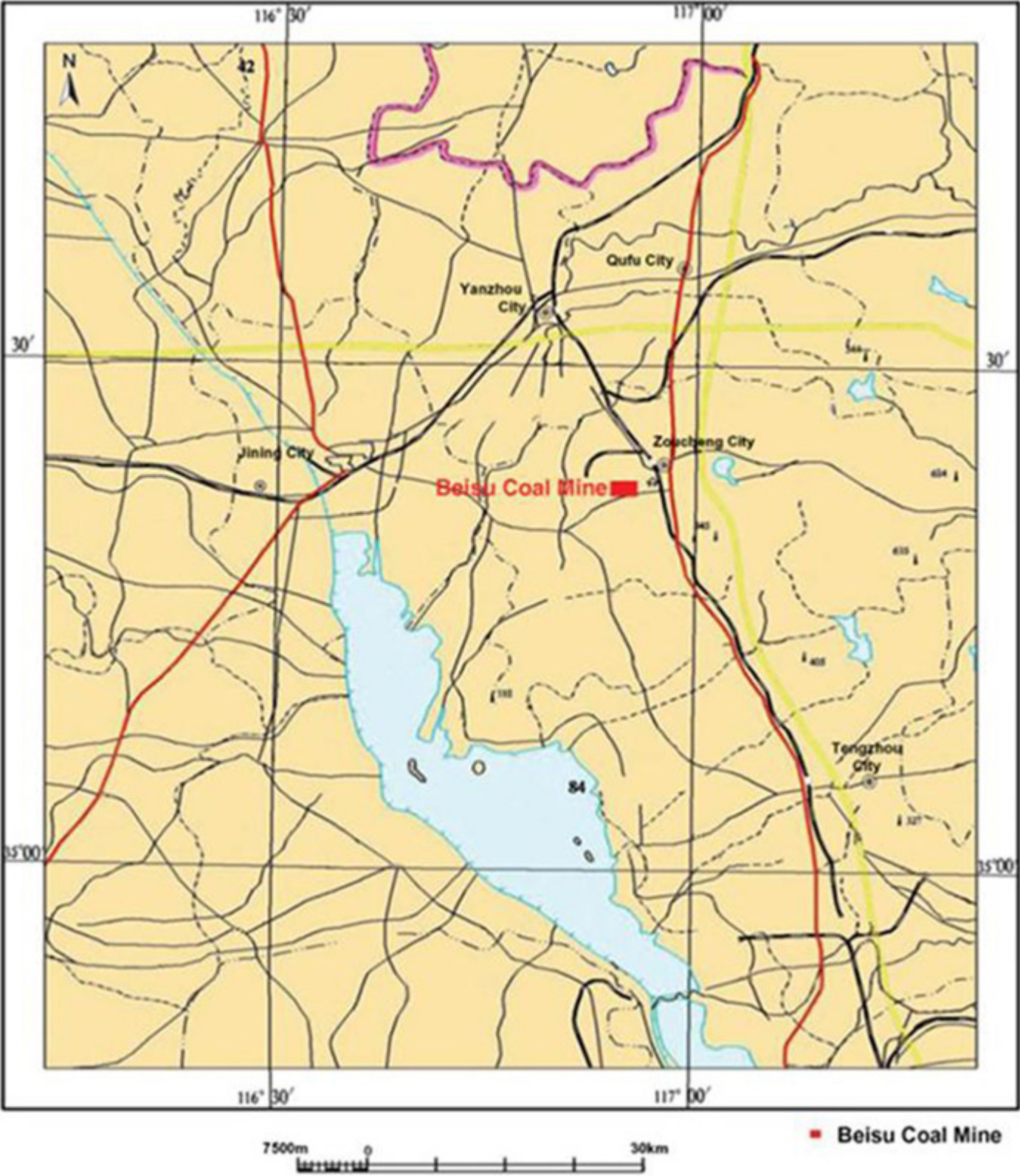




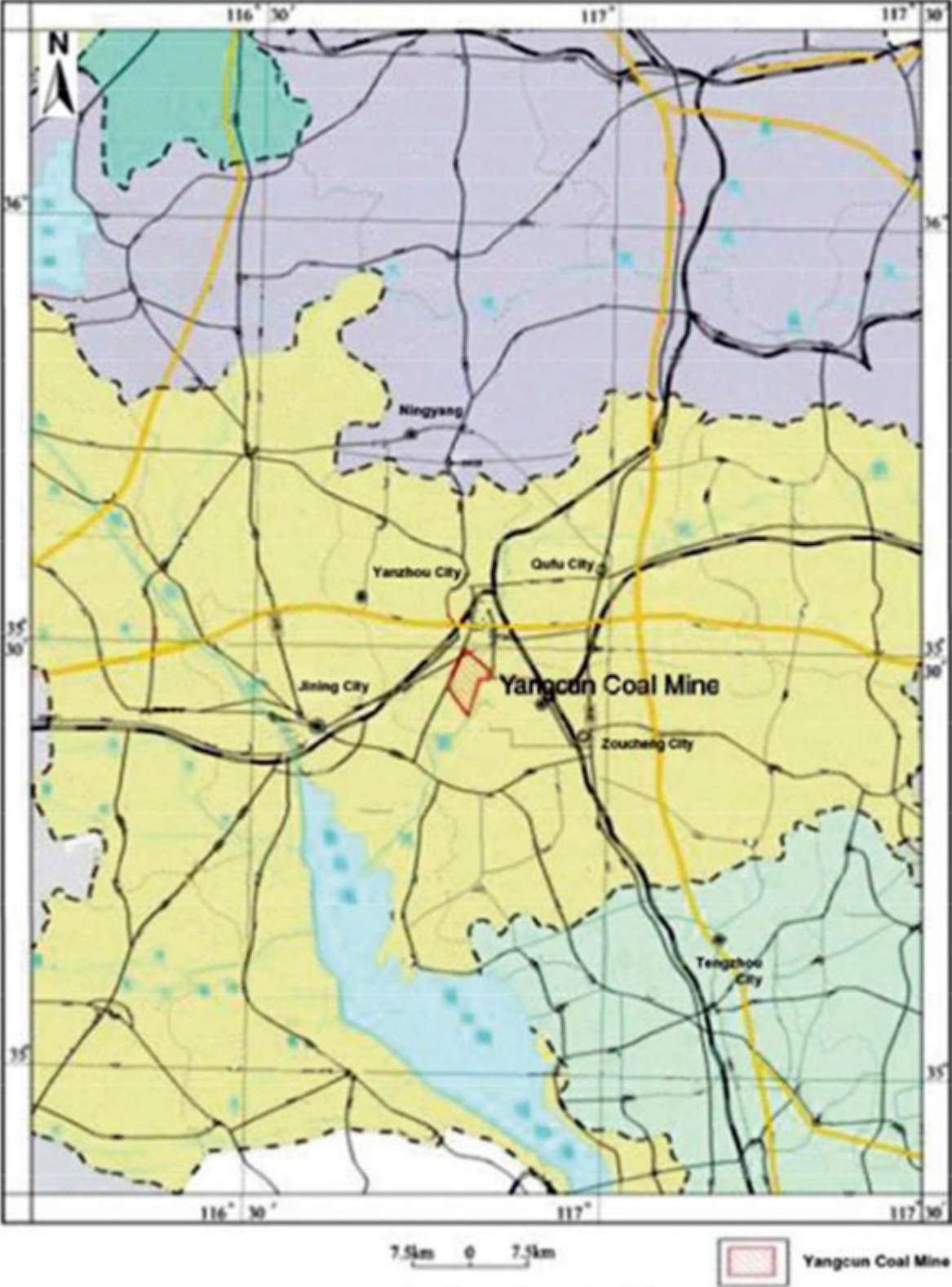
The map below shows the location of Anyuan and Wenyu Coal Mines:



The map below shows the location of Beisu Coal Mine:



The map below shows the location of Yangcun Coal Mine:

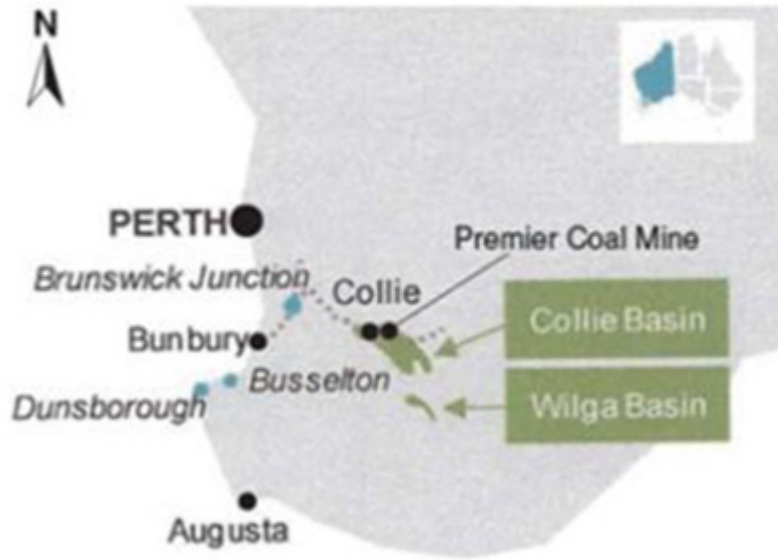


The map below shows the location of Astar, Yarrabee, Ashton and Moolarben Coal Mines as well as advanced-exploration stage projects Athena, Harrybrandt and Wilpeena.





The map below shows the location of Premier Coal Mine and Wilga Project:



The map below shows the location of Gloucester, Donaldson and Middlemount Coal Mines and Monash Project:



## The Six Coal Mines

The following table sets forth information about Nantun, Xinglongzhuang, Baodian, Dongtan, Jining II, Jining III Coal Mines, which are directly owned and operated by the Company.

	<u>Nantun</u>	<u>Xinglong-zhuang</u>	<u>Baodian</u>	<u>Dongtan</u>	<u>Jining II</u>	<u>Jining III</u>	<u>Total</u>
<b>Background data:</b>							
Commencement of construction	1966	1975	1977	1979	1989	1993	N/A
Commencement of commercial production	1973	1981	1986	1989	1997	2000	N/A
Coalfield area ( <i>square kilometers</i> )	35.2	56.2	37.0	60.0	87.1	105.1	380.6
<b>Reserve data:<sup>(1)</sup></b>							
<i>(millions tonnes as of December 31, 2015)</i>							
Total in-place proven and probable reserves <sup>(1)</sup>	99.3	280.8	249.9	413.7	388.0	191.7	1623.3
Mining recovery rate <sup>(2)</sup> (%)	83.5	80.4	79.1	80.9	82.3	81.5	N/A
Coal preparation plant recovery rate (%) <sup>(3)</sup>	88.67	77.97	81.60	69.52	76.35	67.49	N/A
Depth of mine ( <i>meters underground</i> )	465	399	517	780	517	551	N/A
Average thickness of main coal seam ( <i>meters</i> )	5.4	8.3	8.8	8.4	4.7	4.9	N/A
Type of coal	Thermal coal	Thermal coal	Thermal coal	Thermal coal	Thermal coal	Thermal coal	N/A
Leased/owned	Owned	Owned	Owned	Owned	Owned	Owned	N/A
Assigned/unassigned <sup>(4)</sup>	Assigned	Assigned	Assigned	Assigned	Assigned	Assigned	N/A
Average calorific value (Kcal/kg)	5.541	5.407	5.443	5.280	5.350	5.185	N/A
Sulfur content (%)	0.61	0.56	0.59	0.57	0.64	0.64	N/A
<b>Production data : (million tonnes)</b>							
Approval raw coal production capacity	3.0	6.5	6.0	7.5	4.2	6.5	33.7
Designed washing capacity	1.8	3.0	3.0	4.0	3.0	5.0	19.8
Raw coal production							
1997-2007	45.7	70.1	61.6	78.1	42.7	49.6	347.8
2008	3.5	6.6	6.0	7.0	3.9	6.1	33.1
2009	3.8	6.6	5.7	7.5	3.6	6.2	33.4
2010	3.6	6.8	6.1	7.4	4.2	6.2	34.3
2011	3.3	6.8	6.1	7.3	4.4	6.1	34.0
2012	3.2	7.0	6.1	7.6	3.7	5.5	33.1
2013	3.0	6.9	6.2	8.1	3.1	6.5	33.8
2014	2.7	6.8	5.8	8.0	4.2	5.3	32.8
2015	2.8	7.1	6.2	8.1	4.3	6.0	34.5
Cumulative raw coal production as of December 31, 2015	71.6	124.7	109.8	139.1	74.1	97.5	616.8

(1) The proven and probable reserves of the above coal mines are based on the report dated February 6, 1998 prepared by International Mining Consultants Limited, a UK-based company, in accordance with the standards in Industry Guide 7.

Under Industry Guide 7, “proven reserves” are reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes, grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. “Probable reserves” are reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling, and measurement are further apart or are otherwise less adequately spaced. The degree of assurance of “probable reserves,” although lower than that for proven reserves, is high enough to assume continuity between points of observation.

The total proven and probable reserves as of the end of a year are derived by deducting the proven and probable reserves consumed in the coal production in the same year from the proven and probable reserves as of the end of the immediately preceding year. The distinction between proven and/or probable reserve classifications cannot be readily determined or defined.

- (2) The mining recovery rate is the rate of the amount of coal recovered from a determined amount of proven and probable reserves, which is calculated by dividing the actual volume of coal recovered in a year by the volume of proven and probable reserves mined and consumed in the same year.
- (3) “Coal preparation plant recovery rate” refers to the wash plant recovery rate of raw coal used during the production of our coal products.
- (4) “Assigned” refers to coal reserves which have been committed to a particular mining complex (mine shafts, mining equipment, and plant facilities), and all coal which has been leased by the company to others. “Unassigned” refer to coal reserves which have not been committed, and which would require new mine shafts, mining equipment or plant facilities before operations could begin on the property.

#### Nantun Coal Mine

Nantun is located in the southern portion of our coalfield, with a coalfield area of approximately 35.2 square kilometers. Nantun began commercial production in 1973 with an approved annual raw coal production capacity of 3.0 million tonnes of coal. The main coal seam of Nantun is divided into four leaves. The thickness of the upper leaf averages 5.35 and 3.21 meters and the thickness of the lower leaf averages 0.89 and 1.03 meters. As of December 31, 2015, the total in-place proven and probable reserves on the main coal layer were approximately 99.3 million tonnes.

We primarily use the fully mechanized or comprehensive sublevel caving mining method to extract coal. As of December 31, 2015, Nantun produced coal from two work faces. Nantun’s coal preparation plant produces mainly No. 2 Clean Coal and employs movable-sieve jig machines and flotation machines. Most of the equipment used in the Nantun coal preparation plant was manufactured in the PRC.

#### Xinglongzhuang Coal Mine

Xinglongzhuang is located in the northern portion of our coalfield, with coalfield area of approximately 56.2 square kilometers. Xinglongzhuang began commercial production in 1981 with an approved annual raw coal production capacity of 6.5 million tonnes. The main coal seam of Xinglongzhuang is concentrated in one leaf with an average thickness of 8.3 meters. As of December 31, 2015, the total in-place proven and probable reserves on the main coal layer were approximately 280.8 million tonnes.

We primarily use the fully mechanized sublevel caving method to extract coal from the coal seam of Xinglongzhuang Coal Mine. At this coal mine, we produced coal from two work faces as of December 31, 2015. The Xinglongzhuang coal preparation plant produces No. 1 and No. 2 Clean Coal, lump coal and thermal coal. The majority of the equipment in the Xinglongzhuang coal preparation plant, including its jig machines, movable-sieve jig machines and flotation machines, was manufactured in the PRC while a small portion of the equipment was imported.

#### Baodian Coal Mine

Baodian is located in the central western portion of our coalfield, with coalfield area of approximately 37.0 square kilometers. Baodian began commercial production in 1986 with an approved annual raw coal production capacity of 6.0 million tonnes. Certain sections of the main coal seam of Baodian are concentrated in one leaf, with an average thickness of 8.81 meters. The remaining sections are divided into two leaves with an average thickness of 5.74 meters for the upper leaf and 3.38 meters for the lower leaf. As of December 31, 2015, the total in-place proven and probable reserves on the main coal layer were approximately 49,900 million tonnes.

We primarily use the fully mechanized sublevel caving method to extract coal. At this coal mine, we maintained two work faces as of December 31, 2015. The Baodian coal preparation plant produces No. 2 Clean Coal and lump coal. The majority of equipment in the Baodian coal preparation plant, including its slanted wheel, cyclones and flotation machines, was manufactured in the PRC.

#### Dongtan Coal Mine

Dongtan is located in the central eastern portion of our coalfield, with coalfield area of approximately 60.0 square kilometers. Dongtan began commercial production in 1989 with an approved annual raw coal production capacity of 7.5 million tonnes. Certain sections of the main coal seam consist of one layer with an average thickness of 8.41 meters, and the remaining sections are divided into two layers, with an average thickness of 5.38 meters for the upper layer and 3.22 meters for the lower layer. As of December 31, 2015, the main coal layer held approximately 13,700 million tonnes of in-place proven and probable reserves.



We primarily use the fully mechanized sublevel caving method to extract coal. At this mine, we maintained two work faces as of December 31, 2015. The Dongtan coal preparation plant produces No. 2 Clean Coal, lump coal and thermal coal. The principal pieces of equipment in the Dongtan coal preparation plant, including its slanted wheel, cyclones, TBS sorting machines and flotation machines, were manufactured in the PRC.

#### Jining II Coal Mine

Jining II is located in the northern portion of the Jining coalfield, with coalfield area of approximately 87.1 square kilometers. Jining II began commercial production in 1997 with an approved annual raw coal production capacity of 4.2 million tonnes. Certain sections of the main coal seam of Jining II are concentrated in one layer, with an average thickness of 6.78 meters. The remaining sections are divided into two layers, with an average thickness of 2.1 meters for the upper leaf and an average thickness of 4.68 meters for the lower leaf. As of December 31, 2015, the total in-place proven and probable reserves on the main coal layer were approximately 88,000 million tonnes.

We primarily use the fully mechanized sublevel caving method to extract coal. At this coal mine, we produced coal from two work faces as of December 31, 2015. The main equipment used in Jining II are movable-sieve jig machines, cyclones and flotation machines, most of which were manufactured in the PRC. The principal product of the coal preparation plant of Jining II is No. 2 Clean Coal.

#### Jining III Coal Mine

Jining III is located in the southern portion of the Jining coalfield and covers an area of 105.1 square kilometers. Jining III has an approved annual raw coal production capacity of 6.5 million tonnes. The main coal seam of Jining III is divided into two leaves. The thickness of the upper leaf averages 1.21 meters and the thickness of the lower leaf averages 4.91 meters. As of December 31, 2015, the total in-place proven and probable reserves on the main coal layer were approximately 91,700 million tonnes.

We primarily used the fully mechanized sublevel caving method to extract coal from three work faces in Jining III Coal Mine as of December 31, 2015. The main pieces of equipment used in Jining III are slanted wheel, cyclones, TBS sorting machines, flotation machines and movable-sieve jig machines, which were manufactured in the PRC. The principal products of the coal preparation plant of Jining III are No. 2 Clean Coal and thermal coal.

#### **Beisu and Yangcun Coal Mines**

The following table sets forth information about Beisu and Yangcun Coal Mines, which are directly owned and operated by the Company:

	<u>Beisu</u>	<u>Yangcun</u>	<u>Total</u>
<b>Background data:</b>			
Commencement of construction	1972	1981	N/A
Commencement of commercial production	1976	1988	N/A
Coalfield area ( <i>square kilometers</i> )	29.3	27.5	56.8
<b>Reserve data:</b>			
<i>(as of December 31, 2015)</i>			
Recoverable reserves <sup>(1)</sup>	73.8	88.2	162.0
Mining recovery rate (%) <sup>(2)</sup>	86.5	86.7	N/A
Coal preparation plant recovery rate (%) <sup>(3)</sup>	N/A	N/A	N/A
Depth of mine ( <i>meters underground</i> )	269.7	318.8	N/A
Average thickness of main coal seam ( <i>meters</i> )	1.0	8.3	N/A
Type of coal	Thermal coal	Thermal coal	N/A
Leased/owned	Owned	Owned	N/A
Average calorific value ( <i>Kcal/kg</i> )	5,199	5,118	N/A
Sulfur content (%)	3.50	0.87	N/A
<b>Production data: (<i>million tonnes</i>)</b>			
Approved raw coal production capacity	1.0	1.2	2.2
Designed coal preparation input washing capacity	—	—	—
Raw coal production			
2013	1.0	1.1	2.1
2014	0.8	1.0	1.8
2015	0.7	1.6	2.3
Cumulative raw coal production as of December 31, 2015	3.5	4.8	8.3

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- (1) Based on the PRC Standards, “recoverable reserves” in this table are the sum of basic reserves and resources. “Basic reserves” generally refers to measured and indicated economical reserves prior to deduction of design and extraction losses. “Resources” refers to the sum of a part of identified mineral resources and undiscovered resources.
  - (2) The mining recovery rate is the rate of the amount of coal recovered from a determined amount of reserves, which is calculated by dividing the actual volume of coal recovered in a year by the volume of reserves mined and consumed in the same year.
  - (3) “Coal preparation plant recovery rate” refers to the wash plant recovery rate of raw coal used during the production of our coal products.

#### Beisu Coal Mine

Beisu Coal Mine is located in the southern portion of our coalfield, and covers an area of approximately 29.3 square kilometers. We acquired the assets of Beisu Coal Mine in May 2015. As of December 31, 2015, the total in-place proven and probable reserves on the main coal layer were approximately 73.8 million tonnes. Beisu Coal Mine commenced operations in 1976 with an approved annual raw coal production capacity of 0.75 million tonnes. The annual raw coal production capacity has been increased to 1.0 million tonnes since 2006. The main coal seam of Beisu is divided into two thin-seam leaves. The thickness of the upper leaf averages 0.99 meters and the thickness of the lower leaf averages 0.9 meters. We primarily used the thin coal seam blasting method and the fully mechanized system to extract coal from three work faces in Beisu Coal Mine as of December 31, 2015. Beisu Coal Mine primarily produces thermal coal. Beisu Coal Mine has a coal preparation plant. The main equipment used in the coal preparation plant is a waste discharge system, which was manufactured in China.

#### Yangcun Coal Mine

Yangcun Coal Mine is located in the north portion of our coalfield, and covers an area of approximately 27.5 square kilometers. We acquired the entire assets of Yangcun Coal Mine in May 2012. As of December 31, 2015, the total in-place proven and probable reserves on the main coal layer were approximately 88.2 million tonnes.

Yangcun Coal Mine commenced operations in 1988 with an approved annual raw coal production capacity of 0.6 million tonnes. The annual raw coal production capacity has been increased to 1.15 million tonnes since 2006. The main coal seam of Yangcun is divided into three leaves. The thickness of the upper leaf averages 8.34 meters and the thickness of the lower leaves average 1.17 and 1.02 meters. We primarily used the fully mechanized sublevel caving method to extract coal from the upper leaf and the fully mechanized system to extract coal from the lower leaves. As of December 31, 2015, Yangcun Coal Mine has two work faces. Yangcun Coal Mine primarily produces thermal coal. Yangcun Coal Mine does not have any coal preparation plant.

## Coal Mines operated by Shanxi Nenghua and Heze Nenghua

The following table sets forth information about Tianchi Coal Mine and Zhaolou Coal Mine in China that are operated by Shanxi Nenghua and Heze Nenghua:

	Tianchi	Zhaolou	Total
<b>Background data:</b>			
Commencement of construction <sup>(1)</sup>	2004	2004	N/A
Commencement of commercial production <sup>(1)</sup>	2006	2009	N/A
Coalfield area ( <i>square kilometers</i> )	18.7	143.4	162.1
<b>Reserve data:</b>			
<i>(millions tonnes as of December 31, 2015)</i>			
Recoverable reserves <sup>(2)</sup>	22.7	94.5	117.2
Mining recovery rate <sup>(3)</sup> (%)	75.0	80.3	N/A
Coal preparation plant recovery rate (%) <sup>(4)</sup>	N/A	66.1	N/A
Depth of mine ( <i>meters underground</i> )	225	905	N/A
Average thickness of main coal seam ( <i>meters</i> )	4.6	5.2	N/A
Type of coal	Thermal coal	1/3 coking coal	N/A
Leased/owned	Owned	Owned	N/A
Assigned/unassigned <sup>(4)</sup>	Assigned	Assigned	N/A
Average calorific value ( <i>Kcal/kg</i> )	5,448	5,873	N/A
Sulfur content (%)	1.89	0.69	N/A
<b>Production data: (million tonnes)</b>			
Approved raw coal production capacity	1.2	3.9	5.1
Designed coal preparation input washing capacity	—	3.0	3.0
Raw coal production			
2006 - 2007	1.3	—	1.3
2008	1.1	—	1.1
2009	1.0	0.04	1.04
2010	1.5	1.6	3.1
2011	1.2	3.0	4.2
2012	1.4	2.7	4.1
2013	1.5	2.9	4.4
2014	1.6	3.0	4.6
2015	0.7	3.2	3.9
Cumulative raw coal production as of December 31, 2015	11.3	16.4	27.7

- (1) With respect to the Tianchi Coal Mine, the “commencement of construction” refers to capacity expansion and technology upgrade undertaken after our 2006 acquisition; the “commencement of commercial production” refers to the resumption of production after completion of the foregoing expansion and upgrade.
- (2) The recoverable reserves of the above coal mines are based on the report prepared by Minarco Asia Pacific Pty Limited in May 2006 in accordance with the standards in the JORC Code, as revised in 2004.
- “Recoverable reserves” generally refer to proved and probable reserves under the JORC Code as revised in 2004. “Proved reserves” are the economically mineable part of a measured coal resource and “probable reserves” are the economically mineable part of an indicated, and in some circumstances, measured coal resource. Both “proved reserves” and “probable reserves” incorporate mining dilution and allow for mining losses and are based on an appropriate level of mine planning, mine design and scheduling.
- (3) The mining recovery rate is the rate of the amount of coal recovered from a determined amount of recoverable reserves, which is calculated by dividing the actual volume of coal recovered in a year by the volume of recoverable reserves mined and consumed in the same year.
- (4) “Coal preparation plant recovery rate” refers to the wash plant recovery rate of raw coal used during the production of our coal products.
- (5) “Assigned” refer to coal reserves which have been committed to a particular mining complex (mine shafts, mining equipment and plant facilities), and all coal which has been leased by the company to others. “Unassigned” refers to coal reserves which has not been committed, and which would require new mine shafts, mining equipment, or plant facilities before operations could begin on the property.

### Tianchi Coal Mine

Tianchi Coal Mine is an underground mine located in Heshun County of Shanxi, with an area of approximately 18.7 square kilometers. Tianchi Coal Mine commenced commercial production in 2006 and the designed production capacity was increased to 1.2 million tonnes per annum in the same year. Tianchi Coal Mine is operated by inclined shaft development and primarily produces thermal coal. The average thickness of the coal seam is 4.6 meters. As of December 31, 2015, the total recoverable reserves of Tianchi Coal Mine were approximately 22.7 million tonnes.

We primarily used the high seam mechanization mining method to extract coal from one work face at Tianchi Coal Mine as of December 31, 2015. The primary piece of equipment in this system is a slanted wheel, which was manufactured in China. The operations at Tianchi Coal Mine are powered by electricity from local power grids. We ship coal products from the Tianchi Coal Mine to Hebei and surrounding areas on the Yangshe Railway and the national railway network, as well as the highway network.

### Zhaolou Coal Mine

Zhaolou Coal Mine is an underground longwall mine located in the central portion of Juye Coal Field in Shandong. Zhaolou Coal Mine covers an area of approximately 143.4 square kilometers, and is accessible by roadway and railway.

Zhaolou Coal Mine commenced commercial production in December 2009 and has an approved annual raw coal production capacity of 3.9 million tonnes. Zhaolou Coal Mine produces 1/3 coking coal. The average thickness of the main coal seam of Zhaolou Coal Mine is 5.2 meters. The total recoverable reserves of Zhaolou Coal Mine were approximately 94.5 million tonnes as of December 31, 2015, which was net of coal preparation and plant recovery losses.

We primarily used the longwall caving mining method to extract coal from two work faces at Zhaolou Coal Mine as of December 31, 2015. The coal preparation plant at Zhaolou Coal Mine commenced commercial production in September 2009. The main equipment used in the coal preparation plant was a slanted wheel, cyclone machines, TBS separators and flotation machines, which were mainly produced in China. The main product of Zhaolou's coal preparation plant is No. 2 Clean Coal. Electricity generated from Zhaolou Coal Mine, after being applied internally, is sold to external parties. We ship coal products to Shandong and Hebei Provinces and surrounding areas by truck.

### **Coal Mines operated by Ordos Neng Hua**

The following table sets forth information about Anyuan Coal Mine and Wenyu Coal Mine in China that are operated by Ordos Neng Hua:

	<u>Anyuan</u>	<u>Wenyu</u>	<u>Total</u>
<b>Background data:</b>			
Commencement of construction	—	1996	N/A
Commencement of commercial production	2004	1997	N/A
Coalfield area ( <i>square kilometers</i> )	9.3	9.4	18.6
<b>Reserve data:</b>			
<i>(as of December 31, 2015)</i>			
Recoverable reserves <sup>(1)</sup>	26.7	43.1	69.8
Mining recovery rate (%) <sup>(2)</sup>	85.4	85.5	N/A
Coal preparation plant recovery rate (%) <sup>(3)</sup>	—	—	N/A
Depth of mine ( <i>meters underground</i> )	68	59	N/A
Average thickness of main coal seam ( <i>meters</i> )	2.8	3.9	N/A
Type of coal	Thermal coal	Thermal coal	N/A
Leased/owned	Owned	Owned	N/A
Average calorific value ( <i>Kcal/kg</i> )	5,170	5,237	N/A
Sulfur content (%)	0.35	0.90	N/A
<b>Production data: (<i>million tonnes</i>)</b>			
Approved raw coal production capacity	1.2	3.0	4.2
Designed coal preparation input washing capacity	—	—	—
Raw coal production			
2011	2.3	2.1	4.4
2012	2.3	4.6	6.9
2013	2.2	4.1	6.3
2014	1.8	4.1	5.9
2015	1.6	1.0	2.6
Cumulative raw coal production as of December 31, 2015	10.2	15.9	26.1

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- (1) Based on the PRC Standards, “recoverable reserves” in this table are the sum of basic reserves and resources. “Basic reserves” generally refers to measured and indicated economical reserves prior to deduction of design and extraction losses. “Resources” refers to the sum of a part of identified mineral resources and undiscovered resources.
  - (2) The mining recovery rate is the rate of the amount of coal recovered from a determined amount of reserves, which is calculated by dividing the actual volume of coal recovered in a year by the volume of reserves mined and consumed in the same year.
  - (3) “Coal preparation plant recovery rate” refers to the wash plant recovery rate of raw coal used during the production of our coal products.

#### Anyuan Coal Mine

Through Ordos Neng Hua, we wholly control Anyuan Coal Mine, which is located in Yijinhuoluqi of Ordos City in Inner Mongolia Autonomous Region, and covers an area of approximately 9.3 square kilometers. In Anyuan Coal Mine, we usually adopt full-mechanized and full-seam mining method.

In 2011, we increased the annual production capacity of Anyuan Coal Mine from the approved annual production capacity of 1.2 million tonnes. Anyuan Coal Mine primarily produces thermal coal. The average thickness of the main coal seam of Anyuan Coal Mine is 2.8 meters. We principally extracted coal from one work face at Anyuan Coal Mine as of December 31, 2015. Anyuan Coal Mine has a coal separation system. Anyuan Coal Mine is located in close proximity to railway and road transportation. The provincial highway and Baoshen railway are located approximately six kilometers to the west of the coalfield.

#### Wenyu Coal Mine

Through our subsidiary, Inner Mongolia Xintai, we operate Wenyu Coal Mine, which is located in Ordos City in Inner Mongolia Autonomous Region, and covers an area of approximately 9.4 square kilometers.

The original designed annual raw coal production capacity of Wenyu Coal Mine was 1.1 million tonnes. We completed production capacity expansion from 1.1 million tonnes to 3.0 million tonnes upon approvals from the relevant administrative authority and commenced commercial production in 2011. The approved annual raw coal production capacity of Wenyu Coal Mine is 3.0 million tonnes. The average thickness of the main seam of Wenyu Coal Mine is 1.45 meters. The type of coal is thermal coal. We principally extracted coal from two work faces at Wenyu Coal Mine as of December 31, 2015. In Anyuan Coal Mine, we usually adopt full-mechanized and full-seam mining method. Wenyu Coal Mine has a simplified coal separation system. Wenyu Coal Mine is located in close proximity to Baofu road, Anyuan Coal Mine and railway transportation.

### Zhuanlongwan Project

Ordos Neng Hua won the bid for the mining rights of Zhuanlongwan coalfield of Dongsheg Coal Field in Inner Mongolia Autonomous Region for a consideration of RMB7,878.7 million on January 28, 2011. Ordos Neng Hua has paid the first and second installment of RMB3.1 billion and RMB2.3 billion on February 25, 2011 and November 30, 2011, respectively. Ordos Neng Hua has paid the last installment of RMB2.3 billion in 2013 after obtaining the mining permit for Zhuanlongwan coalfield.

### Coal Mines operated by Yancoal Australia

The following table sets forth information about our operational coal mines in Australia, which are directly or indirectly held by Yancoal Australia:

	Austar <sup>(6)</sup>	Yarrabee	Ashton <sup>(6)</sup>	Moolarben	Gloucester Mine	Donaldson Mine <sup>(6)</sup>	Middlemount <sup>(5)</sup>	Total
<b>Background data:</b>								
Commencement of construction <sup>(1)</sup>	1998	1981	2003	2009	1998	2001	2009	N/A
Commencement of commercial production <sup>(1)</sup>	2000	1982	2004	2010	1999	2001	2011	N/A
Coalfield area <sup>(2)</sup> (square kilometers)	159.8	220.3	15.7	120.3	162.7	106.2	27.8	812.8
<b>Reserve data:</b>								
<i>(millions of tonnes as of December 31, 2015)</i>								
Recoverable reserves <sup>(3)</sup>	49	44	53	297	50	124	79	697
Depth of mine <sup>(4)</sup> (meters underground)	300-700	Open Cut	190-280	100-250 &	Open Cut	50-150	Open Cut	N/A
Type of coal	Semi-hard coking coal	PCI coal	Semi-soft coking coal	Thermal coal	Semi-hard coking coal	Semi-soft coking coal	Coking coal, PCI coal	N/A
Leased/owned	Owned	Owned	Owned	Owned	Owned	Owned	Owned	N/A
Average calorific value (Kcal/kg gar)	6,200	7,300	7,100	6,650	7,550	8,200	7,300	N/A
Sulfur content (% dar)	1.8	0.7	0.7	0.5	1.1	0.9	0.5	N/A
<b>Production data: (million tonnes)</b>								
Approved raw coal production capacity	3.6	3.8	5.0	17.0	5.6	6.1	5.4	43.9
Designed coal preparation input washing capacity	3.0	2.5	6.5	13.0	4.3	4.0	5.4	38.7
Raw coal production	2.0	—	—	—	—	—	—	2.0
2006 - 2007	2.0	—	—	—	—	—	—	2.0
2008	1.9	—	—	—	—	—	—	1.9
2009	1.9	—	—	—	—	—	—	1.9
2010	1.7	2.3	2.7	3.9	—	—	—	10.6
2011	1.9	3.1	1.7	5.6	—	—	—	12.3
2012	1.7	3.2	2.3	7.2	1.8	2.0	—	18.2
2013	1.6	3.7	2.4	6.7	3.5	3.2	—	21.1
2014	1.9	3.9	2.6	6.6	2.5	2.5	—	20.0
2015	0.8	3.3	3.0	7.3	1.9	1.8	—	18.1
Cumulative raw coal production as of December 31, 2015	15.4	19.5	14.7	37.3	9.7	9.5	—	106.1

- (1) We acquired Austar Coal Mine in 2004 and implemented a production expansion and technology upgrade in 2005. Austar Coal Mine resumed part of its operations in October 2006. Each of the Ashton Coal Mine and Moolarben Coal Mine has an open-pit coal mine and an underground coal mine. The “commencement of commercial production” indicates the time when the open-pit mines, the earlier of the two types of mines, commenced commercial production.
- (2) The coalfield area refers to the surface area of land either owned directly or held under granted mining and exploration tenements.
- (3) The Recoverable Coal Reserves of the above coal mines are reported under the CRIRSCO “International Standards for Reporting of Mineral Resources and Reserves” and are based on the reports prepared by the Competent Persons appointed by Yancoal Australia in accordance with the JORC Code (2012). The reports were prepared under the revised JORC Code (2012 edition), which replaced the JORC Code (2004), with the revised code now fully in alignment with the CRIRSCO code. The stricter conditions of the revised JORC Code accounts for a portion of the differences in Coal Reserves reported compared to those in the previous disclosures, with operational and modifying factors that affect the mining process accounting for the remainder of the difference.
- (4) Ashton Coal Mine has both open-pit and underground coal mines. The depth of mine indicates the depth of the underground mines.
- (5) As Middlemount Coal Mine is owned and operated by a joint venture jointly controlled by Yancoal Australia and a third party, its production data and financial performance will not be consolidated in to our reports.
- (6) On March 31, 2016, Yancoal Australia transferred its interest in the mining assets of Ashton, Austar and Donaldson Mine to a wholly owned subsidiary, namely Watagan Mining Company Pty Ltd., which in turn issued the bonds with total principal amount up to US\$950 million on the same day. As a result of issuance of the bonds, Yancoal Australia ceases to control Watagan Mining Company Pty Ltd. from an accounting perspective.

#### Austar Coal Mine

Austar Coal Mine is an underground mine located in the Hunter Valley, New South Wales, Australia and is accessible by both road and railway. Austar Coal Mine covers an area of 159.8 square kilometers. Austar Coal Mine was constructed in 1998 and commenced commercial production in 2000.

On December 24, 2004, we acquired the entire interest in the Austar Coal Mine for approximately A\$32.0 million from Southland Coal Pty Limited, an independent third party. After we invested approximately A\$230.3 million in the reconstruction, capacity expansion and technology upgrade of Austar Coal Mine in 2005, which included funding for equipment and machinery, the mine resumed commercial production of semi-hard coking coal in October 2006.

The average thickness of the main coal seam of Austar Coal Mine is 3.5-7.0 meters. As of December 31, 2015, the mine’s JORC 2012 Code compliant Coal Reserves were 49 million tonnes. As of the same date, the mine’s Marketable Coal Reserves were 40.6 million tonnes, representing beneficiated or otherwise enhanced coal products where modifications resulting from mining, dilution and processing have been considered.

We use the longwall mining method, in conjunction with the top coal caving mining method (Bellbird Area excluded) to extract coal from the underground mine. The main equipment used in the coal handling preparation plant consists of coal crushing equipment, cyclones, spirals and other associated equipment. The operations at Austar Coal Mine are powered by electricity from local power grids. We transport coal products from Austar Coal Mine to Newcastle Port via railway.

On March 31, 2016, Yancoal Australia transferred its interest in the mining assets of Austar Coal Mine to Watagan Mining Company Pty Ltd, which in turn issued the bonds with total principal amount up to US\$950 million on the same day. As a result of issuance of the bonds, Yancoal Australia ceases to control Watagan Mining Company Pty Ltd from an accounting perspective.

#### Yarrabee Coal Mine

Yarrabee Coal Mine is an open-pit mine located within the Bowen Basin, Queensland, Australia and is accessible by railway to the Port of Gladstone. Yarrabee Coal Mine covers an area of 220.3 square kilometers. The construction of Yarrabee Coal Mine started in 1981 and commercial production commenced in 1982.

Through Yancoal Resources, Yancoal Australia wholly owns Yarrabee Coal Mine. Currently, the approved annual capacity of Yarrabee Coal Mine is 3.6 million tonnes. Yarrabee Coal Mine primarily produces low volatility PCI coal.

As of December 31, 2015, the mine's JORC 2012 Code compliant Coal Reserves were 44 million tonnes. As of the same date, the mine's Marketable Coal Reserves were 34 million tonnes. We utilize conventional truck shovel and open-pit mining methods to extract coal at Yarrabee Coal Mine.

Yarrabee Coal Mine has a coal preparation plant with an approved preparation capacity of 400 tonnes per hour, with a significant portion of the coal able to be bypassed, it is crushed but not washed and blended with the washed coal to make the final product. The main pieces of equipment used in the coal preparation plant are breaker/crushers, dense medium cyclones, spiral banks, froth floating separation cells and other associated equipment. The operations at Yarrabee Coal Mine are powered by electricity from local power grids, with the mining fleets operating on diesel. We transport coal products from Yarrabee Coal Mine to Port of Gladstone via railway.

#### Ashton Coal Mine

Ashton Coal Mine consists of an underground mine (operating) and open-pit (now complete, with one in the planning stages) mine located in the Hunter Valley, New South Wales, Australia and is accessible by railway to the Ports in Newcastle. Ashton Coal Mine covers an area of 15.7 square kilometers. The construction of the open-pit and underground mines of Ashton Coal Mine started in 2003 and commercial production commenced in 2004.

The approved annual capacity of Ashton Coal Mine is 5.0 million tonnes of coal. Ashton Coal Mine mainly produces semi-soft coking coal. The thickness of the currently mined coal seam of the underground mine of Ashton Coal Mine ranges from 1.7 to 2.4 meters and averages 2.2 meters. As of December 31, 2015, the mine's JORC 2012 Code compliant Coal Reserves were 53 million tonnes. As of the same date, the mine's Marketable Coal Reserves were 27 million tonnes. We principally use longwall operations to extract coal from the underground coal seam of Ashton Coal Mine.

The main pieces of equipment used in the coal preparation plant of Ashton Coal Mine are dense-medium cyclones and froth floatation separation cells and other associated equipment. The operations at Ashton Coal Mine are powered by electricity from local power grids. We transport coal products from Ashton Coal Mine to Newcastle Port via railway.

On March 31, 2016, Yancoal Australia transferred its interest in the mining assets of Ashton Coal Mine to Watagan Mining Company Pty Ltd., which in turn issued the bonds with total principal amount up to US\$950 million on the same day. As a result of issuance of the bonds, Yancoal Australia ceases to control Watagan Mining Company Pty Ltd. from an accounting perspective.

#### Moolarben Coal Mine

Moolarben Coal Mine consists of an open-pit mine and an underground development project and is located near Mudgee in central western New South Wales. It is connected by railway to the Newcastle Port. Moolarben Coal Mine covers an area of 120.3 square kilometers.

Yancoal Australia holds 81% of the equity interest in Moolarben Coal Mine through its subsidiary, Moolarben Coal Mines Pty Limited. Construction of Stage I, the open-pit mine, commenced in 2009 with commercial production starting in mid-2010. We obtained the approval on June 16, 2014 to extend the pits approved under Stage I to access an additional 30.0 million tonnes of coal at the same production rate. On January 30, 2015, we obtained approval for the Moolarben Coal Project Stage II, comprising of one large open-pit mine (OC4) and two underground mines. Construction of Stage II commenced in the second half of 2015. The approved annual production limit of Moolarben Coal Mine Stage I & II is 17.0 million ROM tonnes per annum, of which the annual production limit of the underground mines is 4.0 million ROM tonnes and the annual production limit of the open-pit mine is 13.0 million ROM tonnes. Moolarben Coal Mine produces thermal coal.

The thickness of the main coal seam of the open-pit mine of Moolarben Coal Mine ranges from 6 to 13 meters. As of December 31, 2015, the mine's JORC 2012 Code compliant Coal Reserves (Open Cut and Underground) were 297 million tonnes. As of the same date, the mine's Marketable Coal Reserves were 247 million tonnes. We use conventional truck shovel mining methods in the open-pit mine and expect to use longwall mining methods to extract coal in the underground mine projects.

Moolarben Coal Mine has a coal handling preparation plant with a capacity of approximately 1,800 TPH, and utilizes conventional equipment including dense medium cyclones, spiral banks and other associated equipment. The operations at Moolarben Coal Mine are powered by electricity from local power grids. We transport thermal coal products from Moolarben Coal Mine to Newcastle Port via railway.



### Gloucester Coal Mine

Gloucester Coal Mine is located in Gloucester basin in New South Wales, Australia and covers an area of 162.7 square kilometers. Gloucester Coal Mine is approximately 100 kilometers away from the Newcastle Port. The construction of Gloucester Coal Mine started in 1998, with commercial production commenced in 1999. Gloucester Coal Mine consists of two open-pit mines, Duralie and Stratford, which have an aggregate annual approved production capacity of 5.6 million tonnes and an aggregate annual approved preparation capacity of 5.6 million tonnes. We use conventional truck shovel mining methods in the Duralie open-pit mine. Stratford is not currently operating, with the Stratford Extension Project not yet commenced. As of December 31, 2015, Gloucester Coal Mine's JORC 2012 Code compliant Coal Reserves were 50 million tonnes. As of the same date, the mine's Marketable Coal Reserves were 29.7 million tonnes.

Duralie open-pit mine and Stratford open-pit mine own one coal preparation plan with an annual designed preparation capacity of 1.8 million tonnes, which was increased to 4.3 million tonnes in June 2011. We transport our coal products from Gloucester Coal Mine via railway to the Newcastle Ports.

### Donaldson Coal Mine

Donaldson Coal Mine is located in the Newcastle coal field in, part of the Sydney Basin New South Wales, Australia and covers an area of 106.2 square kilometers. Donaldson Coal Mine is approximately 25 kilometers northwest of the Newcastle Port. The construction of Donaldson Coal Mine started in 2001 and commercial production commenced in the same year.

Donaldson Coal Mine consists of Abel and Tasman underground mines, which have an aggregate annual designed production capacity of 4.0 million tonnes. The underground coal mine, Tasman, was temporarily closed in July 2013 due to the high operational costs of the mine and the weak demand for coal products. The underground mine of Abel which will be placed into "Care and Maintenance" around mid-2016, has an annual approved production capacity of 6.1 million tonnes. The average thickness of the main coal seam of the Abel mine ranges from 1.5 to 2.5 meters. As of December 31, 2015, Donaldson Coal Mine's JORC 2012 Code compliant Coal Reserves were 124 million tonnes. As of the same date, the mine's Marketable Coal Reserves 71 million tonnes.

Our coal products at Donaldson Coal Mine are prepared by a coal preparation plant owned and operated by a third party with a coal preparation capacity of 6.0 million tonnes per year. We transport our coal products from Donaldson Coal Mine via railway to the Newcastle Ports.

On March 31, 2016, Yancoal Australia transferred its interest in the mining assets of Donaldson Coal Mine to Watagan Mining Company Pty Ltd, which in turn issued the bonds with total principal amount up to US\$950 million on the same day. As a result of issuance of the bonds, Yancoal Australia ceases to control Watagan Mining Company Pty Ltd from an accounting perspective.

### Middlemount Coal Mine

Middlemount Coal Mine is located in the Bowen Basin in Queensland, Australia and covers an area of 27.8 square kilometers. The mine is approximately 300 kilometers away from Abbot Point port. The construction of Middlemount Coal Mine started in 2009 and commercial production commenced in 2011. Through Yancoal Australia, we own approximately 50% of the equity interest in the joint venture that owns and operates Middlemount Coal Mine.

As of December 31, 2015, Middlemount Coal Mine's JORC 2012 Code compliant Coal Reserves were 79 million tonnes. As of the same date, the mine's Marketable Coal Reserves were 59 million tonnes. The average cumulative thickness of the mine coal seams of the Middlemount Coal Mine ranges from 9.3 to 10.6 meters. The mine has an annual set production capacity of 5.4 million tonnes. Middlemount Coal Mine has a coal preparation plant with an annual capacity of 5.3 million tonnes. The main pieces of equipment used in the coal preparation plant are dense medium cyclones, with froth-floatation cells. We transport our coal products from Middlemount Coal Mine via railway to Dalrymple Bay Coal Terminal and Abbot Point Port.

## Coal Mines operated by Yancoal International

The following table sets forth information about our operational coal mines in Australia, which are directly or indirectly held by Yancoal International (Holding):

	<u>Cameby Downs</u>	<u>Premier</u>	<u>Total</u>
<b>Background data:</b>			
Commencement of construction	2009	1996	N/A
Commencement of commercial production	2010	1996	N/A
Coalfield area <sup>(1)</sup> (square kilometers)	300.3	138.8	418
<b>Reserve data:</b>			
<i>(millions of tonnes as of December 31, 2015)</i>			
Recoverable Coal Reserves <sup>(2)</sup>	234.0	65.0	299.0
Depth of mine (meters underground)	Open Cut	Open Cut	N/A
Type of coal	Thermal coal	Thermal coal	Thermal coal
Leased/owned	Owned	Owned	N/A
Average calorific value (Kcal/kg gar)	6,000	4,750	N/A
Sulfur content (% daf)	0.5	0.61	N/A
<b>Production data: (million tonnes)</b>			
Approved raw coal production capacity	2.3	5.0	7.3
Designed coal preparation input washing capacity	2.3	N/A	2.3
Raw coal production			
2011	0.8	—	0.8
2012	1.9	4.2	6.1
2013	2.0	4.2	6.2
2014	2.0	3.7	5.7
2015	2.3	4.8	7.1
Cumulative raw coal production as of December 31, 2015	9.0	16.9	25.9

- (1) The coalfield area refers to the surface area of land either owned directly or held under granted mining and exploration tenements.
- (2) The Recoverable Coal Reserves of the above coal mines are reported under the CRIRSCO “International Standards for Reporting of Mineral Resources and Reserves” and are based on the reports prepared by the Competent Persons appointed by Yancoal Australia in accordance with the JORC Code (2012). The reports were prepared under the revised JORC Code (2012 edition), which replaced the JORC Code (2004), with the revised code now fully in alignment with the CRIRSCO code. The stricter conditions of the revised JORC Code accounts for a portion of the differences in Coal Reserves reported compared to those in the previous disclosures, with operational and modifying factors that affect the mining process accounting for the remainder of the difference.

### Cameby Downs Coal Mine

Cameby Downs Coal Mine consists of an open-pit mine located west of Miles in southwest Queensland. The mine covers an area of 300.3 square kilometers. The construction of the mine commenced in 2009 and commercial production started in late 2010. Yancoal International owns 100% of Cameby Downs Coal Mine. Cameby Downs Mine produces thermal coal and the average cumulative thickness of the mined coal seams at Cameby Downs Coal Mine ranges from 5.8 to 7.7 meters. As of December 31, 2015, Cameby Downs Coal Mine had JORC 2012 Code compliant Coal Reserves were 234 million tonnes. As of the same date, the mine’s Marketable Coal Reserves were approximately 160 million tonnes.

The phase one stage of Cameby Downs Coal Mine has raw coal annual production capacity of 2.3 million tonnes.

Cameby Downs Coal Mine has a coal handling preparation plant with a capacity of approximately 220 TPH, and utilizes dense medium cyclones, spiral banks and other associated equipment. The operations at the mine are powered by electricity from the local power grid. We transport coal products from Cameby Downs Coal Mine to Brisbane Port via railway.

### Premier Coal Mine

Premier Coal Mine is located in the Collie Basin to the south of Perth, approximately 10km east of Collie. Premier Coal Mine is an open-pit coal mine covering an area of 138.8 square kilometers. The construction of the mine began in 1996 and commercial production commenced in the same year. Yancoal International (Holding) indirectly wholly owns Premier Coal Mine. The annual production capacity of Premier Coal Mine is approximately 5.0 million tonnes. Premier Coal Mine primarily produces low ash and low sulfur sub-bituminous coal. As of December 31, 2015, Premier Coal Mine had JORC 2012 Code compliant Coal Reserves were 65 million tonnes. We utilize conventional truck shovel open-pit mining methods to mine the coal from a number of seams at the mine. The coal mined at Premier Coal Mine is crushed and sold without washing with coal product quality controlled through blending. As a result, the mine's Marketable Coal Reserves were 65 million tonnes as of December 31, 2015.

The operations at Premier Coal Mine are powered by electricity from local power grids. We entered into a long-term coal sales agreement with Verve Energy, a power generator owned by the Western Australian Government. We transport coal products from Premier Coal Mine by conveyors and railway to the power stations it supplies.

### **Mining and Exploration Rights**

#### **Nantun, Xinglongzhuang, Baodian, Dongtan and Jining II**

According to the approvals from the State-owned Asset Supervision Department and the Coal Industry Supervision Department obtained at the establishment of the Company, and the Mining Agreement entered into between the Yankuang Group and us in 1997 and its supplemental agreement, we undertook to make ten annual payments of approximately RMB13.0 million to the Yankuang Group commencing in 1997, as compensation for the depletion of coal resources at the Nantun, Xinglongzhuang, Baodian, Dongtan and Jining II coal mines. We fulfilled this obligation in 2007 after we made the final installment payment and we are not obligated to make further payment under this arrangement.

In September 2006, the State Council approved the *Implementation Plan for the Compensation System Reform Testing in Relation to Deepening Coal Resources*, jointly promulgated by the Ministry of Finance of the PRC, Ministry of Land and Resources of the PRC and the NDRC (the "Implementation Plan"). According to the Implementation Plan, enterprises that obtain mining rights as a result of state-funded exploration must pay mining right fees based on the valuation of its reserves. Our operations in Shandong Province are subject to this mining right fee. On August 3, 2012, Jining Municipal Land and Resources Bureau issued the Notice of payment for mining rights by Yanzhou Coal Mining Company Limited [JiGuotuzi(2012) No. 212], pursuant to which we are required to pay a consideration of RMB2,476.78 million for the mining rights of Nantun, Xinglongzhuang, Baodian, Dongtan and Jining II coal mines, RMB495.4 million of which was paid before the due date of September 30, 2012. The consideration was determined based on the assessment report for the consideration of mining rights of these five coal mines issued by independent third parties appointed by Jining Municipal Land and Resources Bureau and filed with Shandong Provincial Department of Land and Resources. As of December 31, 2015, we have paid mining rights compensation fees of approximately RMB1,684.2 million.

#### **Jining III Coal Mine**

Pursuant to the Jining III Coal Mine Acquisition Agreement dated August 4, 2000 that we entered into with the Yankuang Group, the consideration for the mining right of Jining III Coal Mine was approximately RMB132.5 million, which was to be paid to the Yankuang Group in ten equal interest-free annual installments commencing in 2001. We fully paid the consideration for the mining rights of Jining III Coal Mine in 2010.

#### **Austar Coal Mine**

We obtained an exploration license for Austar Coal Mine from the New South Wales Department of Primary Industries in 2005. Pursuant to the underlying Asset Sale Agreement, we paid A\$32.0 million to the receivers of Gympie Gold for the mine after we obtained the exploration license to the new exploration site adjacent to the Austar Coal Mine in 2006.

### **Tianchi Coal Mine**

We acquired Shanxi Nenghua for RMB748.3 million, of which RMB136.6 million was consideration for the mining rights of Tianchi Coal Mine.

### **Zhaolou Coal Mine**

We purchased the mining rights of Zhaolou Coal Mine for a consideration of RMB747.3 million in 2008.

### **Anyuan Coal Mine**

We acquired the entire equity interest in Anyuan Coal Mine for a consideration of approximately RMB143.5 million in November 2010. The fair market value of the mining rights for Anyuan Coal Mine was approximately RMB131.3 million as of October 31, 2010.

### **Wenyu Coal Mine**

In July 2011, Ordos Neng Hua acquired 80% of the equity interest in Inner Mongolia Xintai, which operates Wenyu Coal Mine, for a consideration of RMB2,801.6 million. In October 2013, Ordos Heng Hua further acquired the remaining 20% of the equity interest in Inner Mongolia Xintai for a consideration of RMB680.3 million and as a result of the acquisition Inner Mongolia Xintai became a wholly owned subsidiary of Ordos Neng Hua.

### **Zhuanlongwan Coalfield**

Ordos Neng Hua won the bid for the mining rights of Zhuanlongwan coalfield of Dongsheng Coal Field in Inner Mongolia Autonomous Region for a consideration of RMB7,878.7 million on January 28, 2011. As of the date of this annual report, Ordos Neng Hua had fully paid the total consideration.

### **Yangcun and Beisu Coal Mine**

We acquired the entire assets of Beisu and Yangcun Coal Mines from Yancoal Group and Beisu Company in 2012 for a consideration of RMB824.1 million. According to an evaluation report issued by an independent evaluator, the fair market value of the mining rights of Beisu Coal Mine and Yangcun Coal Mine was RMB139.5 million and RMB343.2 million as of August 31, 2011.

### **Coal Mines Owned by Yancoal Resources**

We acquired the entire equity interest in Felix, a wholly owned subsidiary of Yancoal Australia, for A\$3,333 million in 2009. The fair market value of our attributable reserves and attributable resources was A\$2,845.2 million as of December 23, 2009. The acquisition included all mining rights to the coal mines owned by Felix (now Yancoal Resources), environment protection licenses, exploration licenses and mining leases.

In 2011, through Yancoal Resources, Yancoal Australia acquired 30% of the equity interest in the Ashton Coal Mine Joint Venture originally held by Austral-Asia Coal Holdings Pty Ltd., a wholly owned subsidiary of Singapore IMC Group, for a consideration of US\$250 million. According to an evaluation report issued by an independent evaluator dated January 20, 2012, 30% of the equity interest Ashton Coal Mine Joint Venture was valued at approximately A\$294.0 million. On September 30, 2014, Yancoal Australia invested AUD17.9 million to acquire the remaining 10% equity interest of Ashton Coal Mine Joint Venture held by ICRA Ashton Pty Ltd. through its wholly owned subsidiary. After the acquisition, Ashton Mine Joint Venture became a wholly-owned subsidiary of Yancoal Australia.

### **Cameby Downs Coal Mine**

We acquired Cameby Downs Coal Mine and Syntech's exploration tenements through the acquisition of the entire equity interest in Syntech Resources Pty Ltd. and Syntech Holdings II Pty Ltd., for a consideration of A\$202.5 million on August 1, 2011. In addition to the Cameby Downs Coal Mine, Syntech Resources Pty Ltd. and Syntech Holdings II Pty Ltd. also have five exploration tenements that might be potentially developed. According to an evaluation report issued by an independent evaluator dated February 14, 2012, the fair market value of the reserves, resources and mining rights of the five exploration tenements was A\$65.8 million as of August 1, 2011. Currently, the Syntech project is the phase I of Cameby Downs Coal Mine operation.

## **Premier Coal Mine and Wilga Exploration Area**

We acquired the Premier Coal Mine and the Wilga Exploration Area through the acquisition of Premier Coal Limited (then called Wesfarmers Premier Coal Limited) and Premier Char Ltd. (then called Wesfarmers Char Pty Ltd.), for a consideration of A\$296.8 million in September 2011. The fair market value of the reserves, resources and mining rights of the coal mines owned by Premier Coal Limited was A\$49.9 million as of December 31, 2011, according to an evaluation report issued by an independent evaluator.

## **Coal Mines Owned by Gloucester**

Yancoal Australia completed its merger with Gloucester in June 2012. According to an evaluation report issued by an independent evaluator, the fair market value of the reserves, resources and mining rights of the coal mines owned by Gloucester was A\$1,216.9 million as of June 30, 2012.

## **Potash Mineral Exploration Permits in Canada**

We acquired 11 potash mineral exploration permits from Devonian Potash Inc. and eight potash mineral exploration permits from North Atlantic Potash Inc. for a total consideration of US\$260 million in September 2011. The 19 potash mineral exploration permits cover an aggregate area of approximately 5,363.84 square kilometers in Saskatchewan, Canada. According to the preliminary exploration report, we expect that the permitted area may have abundant potash resources. We intend to conduct further in-depth exploration work to produce formal estimates of potash resources in compliance with internationally recognized reporting standards.

## ***Railway Assets***

We own and operate a railway transportation network that connects our coal mines in Shandong to the national railway system and Zouxian Power Plant in Jining City of Shandong. As of the date of this annual report, our railway network spans a total length of over 200 kilometers. Our railway network provides us with substantial control over a major means of transportation for our key product, allowing us to benefit from the synergies from coal production, sales and transportation.

## ***Methanol and Cogeneration Power Plants***

***Yulin Nenghua.*** Yulin Nenghua, located in Yunlin City of Shanxi, operates a 600,000-tonne methanol plant and a supporting power plant. The primary pieces of equipment at the methanol plant include boilers, steam turbines, air compressors and booster set, GEA air-cooler exchangers, gasifiers and gasification compressors, synthetic compressors, a methanol synthetic gas-cooled reactor, a methanol synthetic water-cooled reactor and propylene refrigeration compressors. Yulin Nenghua also operates a supporting power plant with an installed capacity of 60 MW for its methanol production.

***Ordos Nenghua.*** Ordos Nenghua, located in Ordos of Inner Mongolian Autonomous Region, operates a 600,000-tonne methanol plant and a supporting power plant. The primary pieces of equipment at the methanol plant include boilers, steam turbines, air compressors and booster set, GEA air-cooler exchangers, gasifiers and gasification compressors, synthetic compressors, a methanol synthetic gas-cooled reactor, a methanol synthetic water-cooled reactor and propylene refrigeration compressors. Ordos Nenghua also operates a supporting power plant with an installed capacity of 60 MW for its methanol production.

***Hua Ju Energy.*** Hua Ju Energy is headquartered in Zoucheng City, Shandong. Hua Ju Energy owns and operates five cogeneration power plants, each of which is able to supply electric power and heat to our coal mines in its proximity. The power plants consist of the Nantun power plant, Xinglongzhuang power plant, Baodian power plant, Dongtan power plant and Jining II power plant. The aggregate installed capacity of these six power plants is 132 MW and the annual power generation capacity and heat supply capacity are 0.9 to 1.0 billion KWh and 1.0 to 1.2 million steam tonnes, respectively. The main pieces of equipment used at Hua Ju Energy include energy conversion CFB boilers and extraction and condensing steam turbines.

***Zhaolou Coal Mine Power Plants.*** Zhaolou Coal Mine power plants are intended to be integrated power plants for Zhaolou Coal Mine, located in Heze City of Shandong. The power plants are being constructed in two phases with designed capacity of 300 MW for each phase. We commenced construction of phase I of the power plants which utilize a power generator of 300 MW in March 2010, which commenced operation in November 2014. The main pieces of equipment used at Zhaolou Coal Mine power plants include extraction and condensing steam turbines, water hydrogen generators and CFB boilers.

## ITEM 4A. UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments from the Securities and Exchange Commission.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with the information set forth in our consolidated financial statements, together with the related notes, included in this annual report.

### A. Operating Results

During the period covered by this annual report, our six business segments consist of our:

- coal business;
- railway transportation business;
- coal chemical business;
- electric power business;
- heat supply business; and
- Sales of electrical and mechanical equipment.

### Overview

#### *Coal Business*

We are one of the primary coal producers in China and Australia. We primarily engage in the mining, washing, processing and distribution of coal through railway transportation. We offer a wide variety of coal products including thermal coal, semi-hard coking coal, semi-soft coking coal and PCI coal which are sold to Eastern China, Southern China, Northern China and other regions of China and multiple other countries, including Japan, South Korea and Australia. Since 2004, we have expanded our operations to include railway transportation, production of coal chemicals, the generation of electricity and heat and the potash exploration business. In 2015, we further expanded our business to include sales of electrical and mechanical equipment.

Our invoiced amount of coal sold includes returns, discounts, sales-related taxes, port fees and other fees and, in certain cases, transportation costs payable by customers. Gross sales, or sales income as used elsewhere in this annual report, of coal equals the invoiced amount of coal sold less returns and discounts. In 2015, we produced approximately 68.5 million tonnes of raw coal and sold approximately 87.2 million tonnes of coal, which included approximately 27.1 million tonnes of coal that was purchased externally from third parties for trading. In 2013, 2014 and 2015, our sales income of coal was approximately RMB54,444.8 million, RMB58,539.4 million and RMB32,876.0 million, respectively, which represented approximately 96.5%, 97.0% and 90.3%, respectively, of our total sales income. Domestic sales income of coal accounted for 83.2%, 87.3% and 77.0% and overseas sales income of coal accounted for 16.8%, 12.7% and 23.0% of our total sales income of coal during 2013, 2014 and 2015, respectively.

#### *Railway Transportation Business*

We own a railway network spanning over 200 kilometers, which we use primarily to transport coal, as well as other goods upon the request of our railway transportation customers. To facilitate our production and sales of coal, we provide railway transportation services to our coal customers and the Yankuang Group. The annual transport volume on our railway network has remained steady in recent years. In 2015, we transported a total of approximately 16.0 million tonnes of goods on our railway network, compared to approximately 16.6 million tonnes in 2014 and approximately 18.3 million tonnes in 2013.

We derive income from our railway transportation services through the delivery of (i) coal purchased from us on an ex-mine basis, an arrangement where customers separately bear the cost of transporting the coal they purchase to a designated location, and (ii) goods other than coal that we deliver on behalf of customers who engage us exclusively for our railway transportation services. In 2015, income from our railway transportation services totaled approximately RMB327.3 million.

### ***Coal Chemical Business***

Our coal chemical operations consist primarily of the production and sale of methanol. Our subsidiary, Yulin Nenghua currently engages in the production of methanol. Yulin Nenghua's methanol plant, which has a production capacity of 600,000 tonnes per annum, commenced commercial operations in August 2009. In 2013, Yulin Nenghua produced a total of approximately 609,000 tonnes and sold 599,000 tonnes of methanol, generating sales income of approximately RMB1,155.7 million. In 2014, Yulin Nenghua produced a total of approximately 650,000 tonnes and sold 660,000 tonnes of methanol, generating sales income of approximately RMB1,195.5 million. In addition, Ordos Neng Hua completed the construction of a methanol project in Ordos City in the Inner Mongolia Autonomous Region, which became commercially operational in January 2015. In 2015, Yulin Nenghua and Ordos Neng Hua produced a total of approximately 1.67 million tonnes and sold 1.61 million tonnes of methanol, generating sales income of approximately RMB2,264.7 million.

### ***Electric Power Business***

We own and operate seven power plants, with total installed capacity of 492 MW, which generate electric power primarily for internal use and, to a lesser extent, external sales. The six cogeneration power plants operated by Hua Ju Energy are able to generate both electric power and heat. We ceased production at the power plant operated by Shanxi Nenghua on January 1, 2012 due to high fuel costs. We are in the process of disposing this power plant together with Tianhao Chemical's methanol assets. In 2013, we generated a total of approximately 1,234.4 million kWh of electricity and sold approximately 879.1 million kWh of electricity, generating approximately RMB332.1 million in revenue. In 2014, we generated a total of approximately 1,605.1 million kWh of electricity and sold approximately 722.5 million kWh of electricity, generating approximately RMB241.5 million in revenue. In addition, Phase I of Heze Nenghua's power plant, with an installed capacity of 300 MW, commenced commercial operation in November 2014. In 2015, we generated a total of approximately 2,639.5 million kWh of electricity and sold approximately 1,677.4 million kWh of electricity, generating approximately RMB598.6 million in revenue.

### ***Heat Supply Business***

In 2015, we produced approximately 1.3 million steam tonnes of heat and sold approximately 120,000 steam tonnes of heat, generating sales revenue of approximately RMB27.5 million.

### ***Equipment Manufacturing Business***

In 2015, we acquired 100% of equity interest of Donghua Heavy Industry, which is mainly engaged in sales and production of mine equipment and electronic machinery. The major products we manufacture and sell include hydraulic support, heading machine, scraper/belt conveyor and frequency converter and switch cabinet. In 2015, we generate sales revenue of approximate RMB309.9 million from sales of electrical and mechanical equipment.

### ***Factors Affecting Our Results of Operations***

Our results of operations and financial condition are affected by a number of factors, many of which are beyond our control, including those set forth below:

#### **Conditions and regulations affecting the coal mining industry**

Our coal mining operations in the PRC are subject to various PRC laws and regulations, including developmental, environmental and health and safety laws and regulations, and various national and local policies, which could facilitate our acquisition activities and the overall growth of our business and operations, industry consolidation could result in larger coal mining enterprises that compete against us.

Our mining operations in Australia are regulated by Australian federal and state governments with respect to environmental issues such as water quality, air quality, dust impact, noise impact, planning issues (such as approvals to expand existing mines, develop new mines or change mining methods), and health and safety issues. Future changes to, and our continuing compliance with, these regulations may have a material effect on our business and results of operations. See "Item 3. Key Information — D. Risk Factors — Risks Relating to Our Business and Industry — Our coal operations are extensively regulated by the PRC and Australian government, and government regulations may limit our activities and adversely affect our business, results of operations and financial condition."

#### **Demand for coal**

Given the nature of our operations, the demand for coal will continue to have a significant effect on our results of operations. Global coal demand correlates strongly with the global economy and, as such, the sustained economic downturn and intensified environmental protection may have an adverse effect on demand for coal. Coal demand is also affected by a variety of factors beyond our control, such as the availability and prices of alternative energy sources to coal, international shipping costs and costs of conducting coal mining operations.

### **Acquisition and expansion**

Our coal business expansion plans are primarily dependent on successfully acquiring and developing projects that can grow or diversify our existing operations. Our coal reserves, future production capacity and, consequently, our revenues and results of operations, will depend on the success of such projects. Our business and results of operations could be affected if we are unable to successfully integrate or operate our acquisitions or achieve anticipated additional revenue and earnings.

### **Exchange rate fluctuations**

Assets, liabilities and the fair value of financial instruments and balances that we incur, create or acquire in the process of our international operations and which are denominated in currencies other than RMB, or in currencies other than the functional currencies of the relevant business units, may fluctuate substantially depending on changes in currency exchange rates. See “Item 3. Key Information — D. Risk Factors — Risks Relating to Our Business and Industry – Our business, results of operations and financial condition depend in part on our ability to continue acquiring or developing suitable coal reserves” and “Item 11. Quantitative and Qualitative Disclosures of Market Risk – Foreign Currency Exchange Rate Risk.”

### **Product mix**

Our products, which include thermal coal, semi-hard coking coal, semi-soft coking coal and PCI coal, generally have different prices and gross margins. For example, our No. 1 clean coal has historically had a higher gross margin than our other products and, as such, an increased proportion of sales income generated from No. 1 clean coal would result in higher gross profits. Conversely, if the sales volume of lower gross margin coal products, such as thermal coal, increased in comparison to higher margin coal products, then we would have lower gross profits despite an increase in sales volume. In addition, the future launch of new products will also affect our product mix and, consequently, our revenues, gross margins and results of operations.

### **Production capacity**

Our results of operations and future growth prospects are affected by our coal production capacity. Our production capacity and production volume may be affected by the macroeconomy and customer demand. We will continue to focus on increasing our production capacity by developing our existing projects and potential domestic and international acquisitions. Increasing our production capacity also increases costs, expenses and capital expenditures. The PRC government has issued a number of production limitation policies, which may affect our production output and results of operations.

### **Coal prices**

The selling prices of our coal products are influenced by price fluctuations in the PRC domestic market and the global market. The coal prices may also be affected by factors that are out of our control, such as international demand and supply of coal, coal quality and features, method, capacity and cost of transportation, increasingly stringent environmental protection requirements and national policy on coal consumption industries. Changes in the above factors are likely to lead to changes in coal prices, which will in turn influence our business and results of operations. See “Item 3. Key Information — D. Risk Factors — Risks Relating to Our Business and Industry – Our business, results of operations and financial condition depend on volatile domestic and international coal markets.”

### **Cost of sales**

Our results of operations are affected by our cost of sales, which mainly comprises wages and employee benefits, purchases of coal from third parties for trading purposes, materials, land subsidence, restoration, rehabilitation and environmental costs, depreciation and amortization expenses and business tax and surcharges associated with our coal business and railway transportation business. Key factors impacting these costs include variations in production volume, the cost of power, fuel and labor, the application of advanced mining technologies, changes in railway fees and port fees, and contractual terms of our coal products.

### **Transportation volume and cost**

We primarily use railways, marine transportation and highways to transport coal domestically and internationally. We primarily rely on the national railway system in the PRC and railway systems operated by third parties in Australia to transport our coal. In addition, we also utilize our private railway network to transport other goods upon the request of our railway transportation customers. We also transport coal on the national railway system to ports, from which we ship coal to our customers. Our revenue and results of operations may be affected by fluctuations in the transportation volume and capacity of national and state railway systems and of our own railway assets, as well as fluctuations in the costs associated with transporting coal to our customers.



## **Coal resources and reserves**

Coal resources and reserves data is a key element in our decision-making process. All coal reserves data are estimates, which are revised when additional information becomes available (for example, when additional coal mines commence operations or when actual coal production or extraction commences). If the amount or quality of coal mined differs from the reserve estimates, we may have to further process or wash the coal mined in order to produce coal of a saleable quality. See “Item 3. Key Information — D. Risk Factors — Risks Relating to Our Business and Industry — The coal reserve data in this annual report are only estimates, which may differ materially from actual reserve amounts.”

## Results of Operations

The following table sets forth our income statement and the percentage of each line item to our total revenue for the periods indicated:

	2013		2014		2015	
	RMB (million)	%	RMB (million)	%	RMB (million)	%
Total revenue	56,401.8	100.0	60,370.8	100.0	36,404.1	100.0
Gross sales of coal	54,444.8	96.5	58,539.4	97.0	32,876.0	90.3
Railway transportation service income	457.9	0.8	373.6	0.6	327.3	0.9
Gross sales of electric power	332.1	0.6	241.5	0.4	598.6	1.6
Gross sales of methanol	1,155.7	2.0	1,195.5	1.9	2,264.7	6.2
Gross sale of heat supply	11.2	0.1	20.8	0.1	27.5	0.1
Gross sale of equipment manufacturing	—	—	—	—	309.9	0.9
Transportation costs of coal	(2,024.2)	(3.6)	(2,291.6)	(3.8)	(2,078.9)	(5.7)
Cost of sales and service provided	(42,511.8)	(80.7)	(49,557.5)	(82.1)	(25,838.3)	(71.0)
Cost of electric power	(320.5)	(0.6)	(159.7)	(0.3)	(476.5)	(1.3)
Cost of methanol	(850.8)	(1.5)	(869.3)	(1.4)	(1,535.8)	(4.2)
Cost of heat supply	(6.7)	(0.1)	(11.2)	(0)	(13.4)	(<0.1)
Cost of equipment manufacturing	—	—	—	—	(307.6)	(0.8)
Gross profit	10,687.8	18.9	7,481.4	12.4	6,153.6	16.9
Selling, general and administrative expenses	(10,380.7)	(18.4)	(6,069.8)	(10.1)	(5,696.7)	(15.6)
Share of profit of associates	233.9	0.4	310.6	0.5	502.4	1.4
Share of loss of jointly ventures	(376.0)	(0.7)	(320.8)	(0.5)	(170.5)	(0.5)
Other income	1,020.6	1.8	2,382.2	3.9	2,317.9	6.4
Interest expense	(1,765.8)	(3.1)	(2,183.6)	(3.6)	(2,484.4)	(6.8)
Profit/(Loss) before income taxes	(580.3)	(1.0)	1,599.9	2.7	622.3	1.7
Income taxes	394.8	0.7	(1,112.8)	(1.8)	(489.6)	(1.3)
Profit/(Loss) for the year	(185.5)	(0.3)	487.1	0.8	132.6	0.4
Attributable to:						
Equity holders of the Company	777.4	1.4	766.2	1.3	164.5	0.5
Owners of perpetual capital security	—	—	36.5	0.1	346.2	1.0
Non-controlling interests	(962.8)	(1.7)	(315.5)	(0.5)	(378.1)	1.0

### *Year Ended December 31, 2015 Compared with Year Ended December 31, 2014*

#### **Total revenue**

Our total revenue decreased by RMB23,966.7 million, or 39.7 %, from approximately RMB60,370.8 million in 2014 to approximately RMB36,404.1 million in 2015. Our gross sales of coal, which accounted for 90.3% of our total revenue in 2015, decreased by RMB25,663.4 million, or 43.8%, from approximately RMB58,539.4 million in 2014 to approximately RMB32,876.0 million in 2015. The decrease in gross sales of coal was primarily due to the decrease in the sales volumes of our externally purchased coal products, as well as a decrease in the average selling price of our coal products as a result of weak demand of coal products in the domestic and international markets. In 2015, our average selling price of coal products decreased by approximately RMB98.81 per tonne, from RMB475.64 to RMB376.83 per tonne, a 20.8% decrease from 2014. Our sales volume of coal products decreased by 29.1% from approximately 123.1 million tonnes in 2014 to 87.2 million tonnes in 2015.

In 2015, the transportation volume of our railway assets was approximately 16.0 million tonnes, representing a decrease of approximately 0.6 million tonnes, or 3.5%, from 2014. Our railway transportation services income (income from transported volume settled on the basis of off-mine prices and special purpose railway transportation fees borne by customers) decreased by RMB46.3 million, or 12.4%, from approximately RMB373.6 million in 2014 to approximately RMB327.3 million in 2015.

Our gross sales of methanol increased by approximately RMB1,069.3 million, or 89.4%, from RMB1,195.5 million in 2014 to approximately RMB2,264.7 million in 2015. The increase in gross sales of methanol was mainly attributable to an increase in sales volumes of methanol. Our gross sales of electric power increased by approximately RMB357.1 million, or 147.9%, from approximately RMB241.5 million in 2014 to approximately RMB598.6 million in 2015, primarily because the first phase of Zhaolou Coal Mine power plant commenced production in November 2014 with a total capacity of 300MW. Our gross sales of heat supply increased by RMB6.7 million, or 32.2%, from approximately RMB20.8 million in 2014 to approximately RMB27.5 million in 2015, due primarily to an increase in sales volumes of heat.

In 2015, we acquired 100% of equity interest of Donghua Heavy Industry, which is mainly engaged in sales and production of mine equipment and electronic machinery. We generated a revenue from sales of hydraulic support, heading machine, scraper/belt conveyor and frequency converter and switch cabinet. In 2015 (from August to December), we generated sales revenue of approximate RMB309.9 million.

#### **Transportation costs of coal**

Our coal transportation costs, including our railway transportation costs for coal products, decreased by RMB212.7 million, or 9.3%, from RMB2,291.6 million in 2014 to RMB2,078.9 million in 2015, and included transportation costs for our coal sold in the PRC of RMB610.3million and for coal sold outside the PRC of approximately RMB1,468.6 million. The decrease in the transportation costs of coal was primarily due to the decrease of coal products transported.

We use highways and, to a lesser extent, railways, domestic and international shipping lanes to transport trading coal. We are responsible for costs incurred if coal is transported via railways. The costs of highway and shipping lanes are charged by the relevant carriers to, and borne by, our customers and are not recorded as our transportation costs. As a result, our transportation costs of coal decreased in 2015 due to a general decrease in railway transportation coal volume, the costs of which are borne by us compared with volumes transported using highways, which are borne by our customers.

#### **Cost of sales and services provided**

Our cost of sales and services provided include the cost of sales of coal business and railway transport services, which consist primarily of costs of materials, wages, employee benefits, depreciation and amortization, reclamation of land subsidence restoration costs, environmental cost, cost of externally purchased coal and others. Our total cost of sales and services provided decreased by RMB23,719.2 million, or 47.9%, from RMB49,557.5 million in 2014 to approximately RMB25,838.3 million in 2015, primarily due to the decrease of RMB19,117.4 million of cost of sales of externally purchased coal, as well as a general decrease of coal sales cost as a result of our implementation of the measures to optimize human resources and improve the cost efficiency.

#### **Cost of electric power**

Our cost of our electricity business is mainly from raw material and labor cost. Our cost of electric power increased by RMB316.8 million or 198.3% from approximately RMB159.7 million in 2014, to approximately RMB476.5 million in 2015, primarily due to an increase in electric power sold by Heze Nenhua's power generation.

#### **Cost of methanol**

Our cost of methanol is mainly from raw material, labor and depreciation costs. Our costs of methanol increased from approximately RMB869.3 million in 2014 to approximately RMB1,535.8 million in 2015, primarily due to an increase in the sales volumes of methanol and the commercial production of methanol project of Ordos Neng Hua since January 2015.

#### **Cost of heat supply**

Our cost of heat supply is mainly from raw material and labor cost. Our cost of heat supply increased by RMB2.1 million or 18.8%, from approximately RMB11.2 million in 2014 to approximately RMB13.4 million in 2015, primarily due to the increase in our sales volume of heat supply.

#### **Cost of equipment manufacturing**

Our cost of equipment manufacturing is mainly from raw material, labor cost and depreciation of equipments. In 2015, we incurred a cost of equipment manufacturing of RMB307.6 million.

### **Selling, general and administrative expenses**

Our selling, general and administrative expenses decreased by RMB373.2 million, or 6.1%, from approximately RMB6,069.9 million in 2014 to approximately RMB5,696.7 million in 2015. This decrease was primarily attributable to the general decrease of our wages and employee benefits by RMB137.1 million, as well as decrease of resource compensation fees by RMB164.2 million. The decrease was partially offset by the incurrence of impairment loss on goodwill of RMB326.9 million in 2015 for Wenyu Coal Mine, which was nil in 2014.

### **Share of profit of associates**

Our share of profit from associates increased by RMB191.8 million, or 61.7%, from RMB310.6 million in 2014 to approximately RMB502.4 million in 2015, primarily due to the increase in investment return on Shaanxi Chemicals by RMB45.3 million and , Huadian Zouxian by RMB122.9 million compared to 2014.

### **Share of loss of joint ventures**

Our share of loss of joint ventures decreased by RMB150.4 million, or 46.9%, from RMB320.8 million in 2014 to RMB170.5 million in 2015, primarily due to a decrease in the investment loss of RMB139.9 million in the joint venture operating Middlemount Coal Mine.

### **Other income**

Our other income decreased by RMB64.3 million, or 2.7%, from approximately RMB2,382.2 million in 2014 to approximately RMB2,317.9 million in 2015.

### **Interest expenses**

Our interest expenses increased by RMB300.8 million, from approximately RMB2,183.6 million in 2014 to approximately RMB2,484.4 million in 2015, primarily due to the increase in bank and other borrowings from 2014 to 2015.

### **Profit before income tax**

As a result of the foregoing, the profit before income taxes decreased by RMB977.6 million, or 61.1%, from approximately RMB1,599.9 million in 2014 to approximately RMB622.3 million in 2015.

### **Income tax expense/gain**

We recorded income tax expense of approximately RMB489.6 million in 2015, as compared to income tax expense of approximately RMB1,112.8 million in 2014, primarily due to the decrease of our profit.

The effective income tax rate increased from 69.6% in 2014 to 78.7% in 2015 primarily due to loss incurred by our Australian operations, which are subject to generally higher income tax rates at a rate of 30%. The resulting income tax gain (after-tax effect of both income taxes and MRRT) of our Australian operations was RMB305.0 million and income tax expense of RMB431.4 million in 2015 and 2014, respectively. Excluding our subsidiaries, we were the major contributor to the income tax of the Group as a whole, with an income tax expense of RMB757.1 million and RMB662.8 million in 2014 and 2015, respectively. The resulting set-off resulted in a net income tax expense of RMB357.8 million in 2015 and RMB1,188.5 million in 2014. As a result of the foregoing, we experienced a significant fluctuation of our effective income tax rate from 2014 to 2015, as our corresponding effective tax rate was 74.2% and 57.5% in 2014 and 2015, respectively. The remaining income tax gain in 2015 is mainly related to losses incurred by other Chinese subsidiaries.

## **Profit/Loss for the year**

As a result, we recorded profit for the year of approximately RMB132.6 million in 2015, decreased by RMB354.5 million, or 72.8% from RMB487.1 million in 2014. ... The profit attributable to equity holders of the Company decreased by RMB601.7 million, or 78.5%, from approximately RMB766.2 million in 2014 to approximately RMB164.5 million in 2015.

## ***Year Ended December 31, 2014 Compared with Year Ended December 31, 2013***

### **Total revenue**

Our total revenue increased by RMB3,968.9 million, or 7%, from approximately RMB56,401.8 million in 2013 to approximately RMB60,370.76 million in 2014. Our gross sales of coal, which accounted for 97.0% of our total revenue in 2013, increased by RMB4,094.51 million, or 7.5%, from approximately RMB54,444.8 million in 2013 to approximately RMB58,539.4 million in 2014. The increase in gross sales of coal was primarily due to the increase in the sales volumes of our externally purchased coal products, partially offset by a decrease in the average selling price of our coal products. In 2014, our average selling price of coal products decreased by approximately RMB47.9 per tonne, from RMB523.53 to RMB475.64 per tonne, a 9.1% decrease from 2013. Our sales volume of coal products increased by 18.3% from approximately 104.0 tonnes in 2013 to 123.1 million tonnes in 2014, primarily due to the increase in the sales volumes of our externally purchased coal products to maintain our market share.

In 2014, the transportation volume of our railway assets was approximately 16.6 million tonnes, representing a decrease of approximately 1.7 million tonnes, or 9.2%, from 2013. Our railway transportation services income (income from transported volume settled on the basis of off-mine prices and special purpose railway transportation fees borne by customers) decreased by RMB 84.3 million, or 18.4%, from approximately RMB457.9 million in 2013 to approximately RMB373.6 million in 2014.

Our gross sales of methanol increased by approximately RMB39.7 million, or 3.4%, from RMB1,155.7 million in 2013 to approximately RMB1,195.5 million in 2014. The increase in gross sales of methanol was mainly attributable to an increase in sales volumes of methanol. Our gross sales of electric power decreased by approximately RMB90.6 million, or 27.3%, from approximately RMB332.1 million in 2013 to approximately RMB241.5 million in 2014. Our gross sales of heat supply increased by RMB9.6 million, or 85.8%, from approximately RMB11.2 million in 2013 to approximately RMB20.8 million in 2014, due primarily to an increase in sales volumes of heat.

### **Transportation costs of coal**

Our coal transportation costs, including our railway transportation costs for coal products, increased by RMB267.4 million, or 13.2%, from RMB2,024.2 million in 2013 to RMB2,291.6 million in 2014, and included transportation costs for our coal sold in the PRC of RMB880.2 million and for coal sold outside the PRC of approximately RMB1,411.4 million. The increase in the transportation costs of coal was primarily due to the increase of coal products transported in the amount of 3.5 million tonnes.

We use highways and, to a lesser extent, railways, domestic and international shipping lanes to transport trading coal. We are responsible for costs incurred if coal is transported via railways. The costs of highway and shipping lanes are charged by the relevant carriers to, and borne by, our customers and are not recorded as our transportation costs. As a result, our transportation costs of coal increased in 2014 due to a general increase in railway transportation coal volume, the costs of which are borne by us compared with volumes transported using highways, which are borne by our customers.

### **Cost of sales and services provided**

Our cost of sales and services provided include the cost of sales of coal business and railway transport services, which consist primarily of costs of materials, wages, employee benefits, depreciation and amortization, reclamation of land subsidence restoration costs, environmental cost, cost of externally purchased coal and others. Our total cost of sales and services provided increased by RMB7,045.7 million, or 16.6%, from RMB42,511.8 million in 2013 to approximately RMB49,557.5 in 2014, primarily due to the increase of RMB8,538.1 million of cost of sales of externally purchased coal, partially offset by a decrease of RMB49.9 million in materials, RMB319.3 million in employee wages and benefits and RMB140.9 million in land subsidence, restoration and rehabilitation cost, respectively, as a result of increased cost control and improved productions system through reducing material consumption and labor costs.

### **Cost of electric power**

Our cost of our electricity business is mainly from raw material and labor cost. Our cost of electric power decreased by RMB160.8 million or 50.2% from approximately RMB320.5 million in 2013, to approximately RMB159.7 million in 2014, primarily due to a decrease in electric power sold by Hua Ju Energy. Hua Ju Energy sold approximately 303.6 million kWh of electric power in 2014 compared to 869.1 million kWh of electric power in 2013. This decrease in sales resulted from a change in sales policy, as our Company since March 2014 had only sold electricity produced by Hua Ju Energy after satisfying internal demand requirements.

### **Cost of methanol**

Our cost of methanol is mainly from raw material, labor and depreciation costs. Our costs of methanol increased from approximately RMB850.8 million in 2013 to approximately RMB869.3 million in 2014, primarily due to an increase in the sales volumes of methanol.

### **Cost of heat supply**

Our cost of heat supply is mainly from raw material and labor cost. Our cost of heat supply increased by RMB4.5 million or 67.5%, from approximately RMB6.7 million in 2013 to approximately RMB11.2 million in 2014, primarily due to the increase in our sales volume of heat supply.

### **Selling, general and administrative expenses**

Our selling, general and administrative expenses decreased by RMB4,310.8 million, or 41.5%, from approximately RMB10,380.7 million in 2013 to approximately RMB6,069.9 million in 2014. This decrease was primarily because (i) the exchange loss of RMB1.686 billion in 2013 resulted in impairment provision for intangible assets of RMB2.0522 billion while during the reporting period, there were no exchange loss and impairment provision for our intangible assets; (ii) the price regulation fund decreased by RMB195.8 million in 2014 as compared with that of 2013; partially offset by the operating taxes and surcharges increased by RMB334.8 million in 2014 as compared with that of 2013 and employee wages and benefit increased by RMB128.6 million in 2014.

### **Share of profit of associates**

Our share of profit from associates increased by RMB76.7 million, or 32.8%, from RMB233.9 million in 2013 to approximately RMB310.6 million in 2014, primarily due to the investment return on Shaanxi Chemicals of RMB95.4 million, partially offset by the decrease in the the investment return on Huadian Zouxian by RMB14.2 million compared with that of 2013.

### **Share of loss of joint ventures**

Our share of loss of joint ventures decreased by RMB55.2 million, or 14.7%, from RMB376.0 million in 2013 to RMB320.8 million in 2014, primarily due to a decrease in the investment loss of RMB54.9 million in the joint venture operating Middlemount Coal Mine.

### **Other income**

Our other income increased by RMB1,361.6 million, or 133.4%, from approximately RMB1,020.6 million in 2013 to approximately RMB2,382.2 million in 2014, primarily due to an increase in interest income of approximately RMB346.6 million, a foreign exchange gain of approximately RMB154.0 million and impairment provision for accrued intangible assets of RMB731.3 million reversed from the previous year in 2014.

### **Interest expenses**

Our interest expenses increased by RMB417.8 million, from approximately RMB1,765.8 million in 2013 to approximately RMB2,183.6 million in 2014, primarily due to the increase in bank and other borrowings from 2013 to 2014.

### Profit before income tax

As a result of the foregoing, the profit before income taxes increased by RMB2,180.2 million, or 375.7%, from loss of approximately RMB580.3 million in 2013 to profit of approximately RMB1,599.9 million in 2014.

### Income tax expense/gain

We recorded income tax expense of approximately RMB1,112.8 million in 2014, as compared to income tax gain of approximately RMB394.8 million in 2013, primarily due to the increase in income tax expense of our Australia subsidiaries.

The effective income tax rate increased from 68.0% in 2013 to 69.6% in 2014 primarily due to loss incurred by our Australian operations, which are subject to generally higher income tax rates at a rate of 30%. The resulting income tax gain (after-tax effect of both income taxes and MRRT) of our Australian operations was RMB1,690 million and income tax expense of RMB431.4 million in 2013 and 2014, respectively. Excluding our subsidiaries, we were the major contributor to the income tax of the Group as a whole, with an income tax expense of RMB1,469 million and RMB757.1 million in 2013 and 2014, respectively. The resulting set-off resulted in a net income tax expense of RMB1,188.5 million in 2014 and RMB221 million in 2013. As a result of the foregoing, we experienced a significant fluctuation of our effective income tax rate from 2013 to 2014, as our corresponding effective tax rate was 38.0% and 74.2% in 2013 and 2014, respectively. The remaining income tax gain in 2014 is mainly related to losses incurred by other Chinese subsidiaries.

### Profit/Loss for the year

As a result, we recorded profit for the year of approximately RMB487.1 million in 2014, as compared to loss for the year of approximately RMB185.5 million in 2013. In particular, net profit from our trading of externally purchased coal in 2014 was approximately RMB201.3 million. The profit attributable to equity holders of the Company decreased by RMB11.2 million, or 1.4%, from approximately RMB777.4 million in 2013 to approximately RMB766.2 million in 2014.

### Segment Information

The following table sets forth a breakdown of our total consolidated gross revenues for each of the years indicated and the percentage contribution of each segment to our total gross revenues:

	2013		2014		2015	
	RMB	%	RMB	%	RMB	%
	(in millions, except for percentages)					
Coal mining revenue	54,901.0	97.3	58,997.0	97.7	33,273.5	91.4
Railway transportation revenue	501.2	0.9	447.8	0.7	363.8	1.0
Methanol, electricity and heat supply revenue	1,792.1	3.2	1,988.5	3.3	3,416.2	9.4
Equipment manufacturing	—	—	—	—	760.2	2.1
Unallocated and eliminations	(792.4)	(1.4)	(1,062.5)	(1.7)	(1,409.6)	(3.9)
<b>Gross revenue</b>	<b>56,401.8</b>	<b>100.0</b>	<b>60,370.8</b>	<b>100.0</b>	<b>36,404.1</b>	<b>100.0</b>

We are mainly engaged in the mining, washing, processing and railway distribution of coal. For the year ended December 31, 2015, we derived our revenue mainly from coal sales in the PRC.

### Coal mining revenue

Our revenue from coal mining segment (before unallocated corporate income and eliminations) decreased by RMB25,723.5 million, from approximately RMB58,997.0 million in 2014 to approximately RMB33,273.5 million in 2015, primarily due to the decrease in the sales volumes of our externally purchased coal products, as well as a decrease in the average selling price of our coal products as a result of weak demand of coal products in the domestic and international markets. In addition, we recorded a profit on share of associates of RMB661.0 million in our mining business in 2015 as compared to RMB304.9 million in 2014, primarily due to the increased profit recognized by Shaanxi Chemical. We recognized a loss on our share of joint ventures in mining businesses, which decreased from RMB320.8 million in 2014 to RMB170.5 million in 2015, primarily due to share of loss recognized by the joint venture operating Middlemount Coal Mine.

In 2015, we recorded impairment loss on goodwill of RMB326.9million for Wenyu Coal Mine, which was nil in 2014, primarily due to coal price decline significantly from the year 2014 to year 2015.

### **Railway transportation**

Our revenue from railway transportation business segment (before unallocated corporate income and eliminations) remained relatively stable at RMB363.8 million in 2015 as compared to RMB447.8 million in 2014.

The segment liabilities for the railway transportation business segment increased by RMB154.7 million, from RMB141.0 million in 2014 to approximately RMB295.7 million in 2015, primarily due to an increase in receivables due from companies within our Group in 2015 as a result of their late payments.



### **Methanol, electricity and heat supply business**

income and eliminations increased by RMB1,427.7 million, from RMB1,988.5 million in 2014 to RMB3,416.2 million in 2015. We incurred loss of RMB158.7 million from associates the methanol, electricity and heat supply business segment, while we had a profit from associates in this segment of RMB5.7 million in 2014, primarily due to share the loss after dividend distribution.

### **Unallocated and eliminations**

Our unallocated corporate income increased by RMB74.9 million, from RMB161.4 million in 2014 to RMB236.3 million in 2015. Our unallocated corporate expenses decreased by RMB132.9 million, from RMB1,990.3 million in 2014 to RMB1,857.4 million in 2015, primarily included bank charges, salaries and other employee benefits, miscellaneous taxes and other sundry items.

## **B. Liquidity and Capital Resources**

Our principal source of cash in 2015 was cash generated from our operating activities, the offering of RMB denominated short term notes and non-public issuance of financing instruments and bank borrowings. Our capital expenditures in 2015 were primarily for operational capital expenditures, purchase of properties, machinery and equipment, payment of dividends, and consideration paid for our acquisitions of assets and equity interests.

Our principal sources of liquidity in 2013 were the cash generated from our operating activities, offering of RMB denominated short term notes and proceeds from bank borrowings. In 2013, we primarily utilized cash to pay our operating expenses, fund payments of interest and principal due on our indebtedness, finance acquisitions and expansion of our facilities and operations.

Taking into account our cash and cash equivalents on hand, our available credit facilities, cash generated from our future operations and the proceeds from the offering of RMB denominated short term notes and non-public issuance of financing instruments, we believe we have sufficient working capital to meet our financial requirements for at least the next 12 months from the date of this annual report. As of December 31, 2015, we had cash and cash equivalents of approximately RMB20,175.1 million.

We conduct our operations directly and through our operating subsidiaries, some of which we do not wholly own, are joint ventures or are public companies. Therefore, we may not be able in all circumstances to allocate our free cash flow as we would like among our subsidiaries. In addition, PRC law restricts the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances. PRC regulations currently permit payment of dividends by PRC companies only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, under current PRC laws, regulations and accounting standards, each subsidiary is required to allocate at least 10% of its after-tax profit based on PRC accounting standards to its statutory common reserve fund each year until the cumulative amount of these reserves reaches 50% of its registered capital. In 2015, the cumulative amount of our statutory common reserve fund has reached 50% of our registered capital, the Board recommended to cease to make further contribution to the statutory common reserve fund. These reserves are not distributable as cash dividends. As of December 31, 2015, the required deductions attributable to these statutory common reserve funds amounted to approximately RMB5,952.5 million.

Furthermore, under SAFE regulations, Renminbi is not convertible into foreign currencies for capital account items, such as loans, repatriation of investments and investments outside of China, unless the prior SAFE approval is obtained and prior registration with the SAFE is made. These restrictions have not historically had, and are not expected in the future to have, a material impact on our ability to meet our financial requirements.

## ***Cash Flows***

The following table sets forth a summary of our cash flows for the periods indicated:

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
		<b>(RMB'000)</b>	
Net cash from / (used in) operating activities	(2,201.1)	4,171.8	4,347.2
Net cash used in investing activities	(13,504.4)	(8,534.8)	(8,203.4)
Net cash from financing activities	13,286.9	8,692.2	11,073.8
Net increase / (decrease) in cash and cash equivalents	(2,418.5)	4,329.2	7,217.6
Cash and cash equivalents as of end of year	10,922.6	15,041.9	20,175.1

### **Cash from / (used in) operating activities**

Net cash from operating activities represents cash generated from operations after income taxes, interest and dividend income. Cash generated from operations consisted of profit before income taxes adjusted for certain noncash items, including depreciation, certain interest expenses and income, amortization and our share of investment in an associate company and cash generated from other activities.

Net cash from operating activities was approximately RMB4,347.2 million in 2015, and included profit before income taxes of approximately RMB622.3 million, adjustments for non-cash items of approximately RMB5,951.1 million, and positive changes in working capital of approximately RMB116.5 million. Adjustments for non-cash items primarily consisted of (i) depreciation of property, plant and equipment of approximately RMB3,742.6 million; (ii) impairment loss on intangibles assets of approximately RMB719.4 million and (iii) interest expenses of approximately RMB2,484.4 million. Positive changes in working capital consisted of (i) a decrease in bills and accounts payable of approximately RMB983.2 million; (ii) an increase in prepayments and other current assets of approximately RMB185.8 million; and (iii) an increase in bills and accounts payable of approximately RMB229.7 million. Negative changes in working capital consisted of (i) an increase in inventories of approximately RMB426.9 million; and (ii) decrease in long-term payables and provision of approximately RMB623.0 million.

Net cash from operating activities was approximately RMB4,171.8 million in 2014, and included profit before income taxes of approximately RMB1,599.9 million, adjustments for non-cash items of approximately RMB4,352.8 million, and positive changes in working capital of approximately RMB1,195.6 million. Adjustments for non-cash items primarily consisted of (i) depreciation of property, plant and equipment of approximately RMB3,078.8 million; (ii) impairment loss on inventories of approximately RMB8.6 million and (iii) interest expenses of approximately RMB2,183.6 million. Positive changes in working capital consisted of (i) an increase in bills and accounts payable of approximately RMB1,571.6 million; (ii) a decrease in bills and accounts receivable of approximately RMB1,847.6 million. Negative changes in working capital consisted of (i) an increase in prepayments and other current assets of approximately RMB773.1 million and (ii) a decrease in other payables and accrued expenses of approximately RMB182.3 million.

Net cash used in operating activities was approximately RMB2,201.1 million in 2013, and included loss before income taxes of approximately RMB580.3 million, adjustments for non-cash items of approximately RMB8,737.5 million, and negative changes in working capital of approximately RMB7,641.2 million. Adjustments for non-cash items primarily consisted of (i) depreciation of property, plant and equipment of approximately RMB3,125.0 million; (ii) impairment loss on intangibles assets of approximately RMB2,052.3 million and (iii) interest expenses of approximately RMB1,765.8 million. Negative changes in working capital consisted of (i) decrease in bills and accounts payable of approximately RMB3,187.9 million; (ii) increase in bills and accounts receivable of approximately RMB1,722.0 million; (iii) increase in repayments and other current assets of approximately RMB1,378.0 million and (iv) decrease in other payables and accrued expenses of approximately RMB1,223.3 million.

### **Cash used in investing activities**

Net cash used in investing activities was approximately RMB8,203.4 million in 2015, and primarily consisted of (i) purchase of property, plant and equipment of approximately RMB12,309.9 million; (ii) expenditures of purchase of intangible assets of approximately RMB155.0 million; (iii) advances of associates resulting in cash outflow of RMB1,250.0 million; (iv) acquisition of assets and equity resulting in cash outflow of RMB679.5 million and (v) decreased bank deposits and cash with specific use resulting in cash inflow of RMB2,071.4 million.

Net cash used in investing activities was approximately RMB8,534.8 million in 2014, and primarily consisted of (i) purchase of property, plant and equipment of approximately RMB5,800.2 million; (ii) expenditures of purchase of intangible assets of approximately RMB128.6 million; (iii) advances of associates resulting in cash outflow of RMB1,250 million; (iv) acquisition of assets and equity resulting in cash outflow of RMB58.7 million and (v) increased bank deposits and cash with specific use resulting in cash outflow of RMB909.4 million.

Net cash used in investing activities was approximately RMB13,504.4 million in 2013, and primarily consisted of (i) purchase of property, plant and equipment of approximately RMB10,221.4 million, (ii) expenditures of purchase of intangible assets of approximately RMB388.5 million; (iii) acquisition of subsidiaries resulting in cash outflow of RMB1,482.4 million; (iv) increased bank deposits and cash with specific use resulting in cash outflow of RMB1,242.3 million.

### **Cash from (used in) financing activities**

Net cash from financing activities was approximately RMB11,073.8 million in 2015, and primarily consisted of (i) proceeds from bank borrowings of approximately RMB12,910.2 million; (ii) proceeds from the offering of RMB9,996.7 million denominated short-term notes and non-public issuance of financing instruments, which were partially offset by the repayment of bank borrowings of approximately RMB9,751.5 million and the repayment of other borrowings of approximately RMB17.5 million; and (iii) company cash dividend resulting in cash outflow of RMB98.4 million.

Net cash from financing activities was approximately RMB8,692.2 million in 2014, and primarily consisted of (i) proceeds from bank borrowings of approximately RMB8,072.8 million; (ii) proceeds from the offering of RMB9,932.2 million denominated short-term notes and non-public issuance of financing instruments, which were partially offset by the repayment of bank borrowings of approximately RMB6,193.2 million and the repayment of other borrowings of approximately RMB209.8 million; and (iii) company cash dividend resulting in cash outflow of RMB98.4 million.

Net cash from financing activities was approximately RMB13,286.9 million in 2013, and primarily consisted of proceeds from bank borrowings of approximately RMB21,103.1 million and proceeds from the offering of RMB denominated short-term notes and non-public issuance of financing instruments, which were partially offset by the repayment of bank borrowings of approximately RMB10,000.9 million and the repayment of other borrowings of approximately RMB2,057.4 million.

### *Inventories*

Our inventories comprise methanol, auxiliary materials, spare parts and small tools used in the construction of mining structures and coal products in our stockpiles. The following table sets forth our inventories as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	(RMB in millions)		
Equipment			
- Work in progress	—	—	102.6
- Finished goods	—	—	155.7
	—	—	258.3
Methanol	23.0	18.0	17.3
Auxiliary materials, spare parts and small tools	495.3	393.7	571.2
Coal products	1,070.9	1,058.9	1,005.6
<b>Total</b>	<u>1,589.2</u>	<u>1,470.5</u>	<u>1,852.3</u>

Our inventories decreased from approximately RMB1,589.2 million as of December 31, 2013 to RMB1,470.5 million as of December 31, 2014, primarily due to decreases in our inventory of auxiliary materials, spare parts and small tools and coal products. Our inventories increased from approximately RMB1,470.5 million as of December 31, 2014 to RMB1,852.3 million as of December 31, 2015 due to increase in our inventory of auxiliary materials, spare parts and small tools and equipment.

### *Bills and Accounts Receivables*

Bills and accounts receivables represent unconditional written orders issued by, or negotiated from, our customers for completed sales orders which allow us to collect certain specified amounts from banks or other parties. These bills are non-interest-bearing and generally have a maturity of six months. The following table sets forth our bills and accounts receivables as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	(RMB in millions)		
Accounts receivable	1,469.7	2,029.5	2,477.0
Less: Impairment loss	(8.3)	(13.7)	(59.9)
	1,461.4	2,015.8	2,417.1
Total bills receivable	7,558.1	5,068.4	3,559.7
<b>Total bills and accounts receivable, net</b>	<u>9,019.5</u>	<u>7,084.1</u>	<u>5,976.8</u>

Our bills and accounts receivable decreased from approximately RMB9,019.5 million as of December 31, 2013 to approximately RMB7,084.1 million as of December 31, 2014, primarily due to the decrease of bills we received for the payment of coal in 2014 caused by the decrease in the sales of our self-produced coal products. Our bills and accounts receivable further decreased to RMB5,976.8 million as of December 31, 2015 compare to approximately RMB7,084.1 million as of December 31, 2014, primarily due to the decrease in sales of coal which adopt the bills as manner of settlement. We allow a range of credit periods to our trade customers which take into account the credit rating of our customers. Our credit periods do not exceed 180 days.

The following table sets forth an aging analysis of our bills and accounts receivables based on the applicable invoice dates:

	As of December 31,		
	2013	2014	2015
	(RMB in millions)		
0 - 90 days	8,685.1	6,625.1	4,358.8
91 - 180 days	316.7	187.4	513.7
181 - 365 days	4.7	259.9	353.2
Over 1 year	13.0	11.7	751.1
<b>Total</b>	<b>9,019.5</b>	<b>7,084.1</b>	<b>5,976.8</b>

Before accepting any new customer, we assess the potential customer's credit quality and define credit limits by customer. Limits attributed to customers are reviewed once a year. In 2013, 2014 and 2015, we did not have any significant trade receivables that were past due but not yet impaired as of the balance sheet dates above. We do not hold any collateral over these balances. The average ages of these receivables were 49 days, 57 days and 107 days for 2013, 2014 and 2015, respectively. Our management closely monitors the credit quality of accounts receivables and considers the balances that are neither past due nor impaired to be of good credit quality.

We have provided fully for all accounts receivables over three years because our experience is such that receivables that are past due beyond three years are generally not recoverable. Receivables aged over four years are considered irrecoverable by management and are written off. We did not write off any of our receivables of in 2013, 2014 and 2015. The following table sets forth an analysis of our impairment losses on bills and accounts receivables:

	2013	2014	2015
	(RMB in millions)		
Balance at January 1	2.5	8.3	13.7
Provided for the year	21.4	12.7	46.2
Reversal	(15.6)	(7.3)	—
Balance at December 31	<u>8.3</u>	<u>13.7</u>	<u>59.9</u>

Our allowances for doubtful debts in 2013, 2014 and 2015 were approximately RMB8.3 million, RMB13.7 million and RMB59.9 million, respectively, for individually impaired trade receivables, which were primarily receivables from corporate customers in the PRC and considered irrecoverable by management after considering the credit quality of those individual customers, the ongoing relationship with us and the aging of these receivables. The recognized impairment represents the difference between the carrying amount of these trade receivables and the present value of the amounts. We do not hold any collateral over these balances. The confirmed impairment amount refers to the difference between the amount recognized in the carrying value of accounts receivable and the remaining of the unsecured accounts receivable held by the management.

### ***Prepayments and Other Receivables***

The following table sets forth our prepayments and other receivables as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	(RMB in millions)		
Advances to suppliers	1,181.3	2,009.1	2,707.3
Prepaid relocation costs of inhabitants	2,193.0	2,102.1	2,104.0
Advance to an associate	—	1,250.0	—
Dividend receivable	—	—	300.0
Others	1,885.4	1,858.1	2,857.4
<b>Total</b>	<b>5,259.6</b>	<b>7,219.3</b>	<b>7,968.8</b>

Our prepayments and other receivables increased from approximately RMB5,259.6 million as of December 31, 2013 to RMB7,219.3 million as of December 31, 2014, primarily due to increase in advances to an associate and suppliers. Our prepayments and other receivables increased from approximately RMB7,219.3 million as of December 31, 2014 to RMB7,968.8 million as of December 31, 2015, primarily due to increase in dividend receivable of RMB300 million.

As of December 31, 2013, 2014 and 2015, we had impairment losses of approximately RMB18.3 million, RMB19.2 million and RMB29.5 million, respectively, on our prepayments and other receivables. The increase of impairment losses from 2014 to 2015 was primarily due to an increase in prepayments to an associate and suppliers. We did not write off any impairment losses on our prepayments and other receivables in 2014 and 2015. We wrote off prepayments and other receivables of approximately RMB0.5 million in 2013.

We have provided fully for all receivables over three years because our experience is such that receivables that are past due beyond three years are generally not recoverable. We set aside full provisions for receivables that are past due beyond three years. Receivables are written off if aged over four years and considered irrecoverable by management after considering the credit quality of the individual party and the nature of the amount overdue.

### ***Bills and Accounts Payables***

Our bills and accounts payable are primarily related to purchases from our suppliers and payables to export agents. The following table sets forth our bills and accounts payables as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	(RMB in millions)		
Accounts payable	2,400.3	1,969.6	3,367.8
Bills payable	316.4	2,067.6	839.5
<b>Total</b>	<b>2,716.7</b>	<b>4,037.2</b>	<b>4,207.4</b>

Our bills and accounts payable increased from approximately RMB2,716.7 million as of December 31, 2013 to RMB4,037.2 million as of December 31, 2014, and further to RMB4,207.4 million as of December 31, 2015, primarily because we settled a higher percentage of payment in the form of bills and account payables in 2014.

The following table sets forth an aging analysis of our bills and accounts payables based on the applicable invoice dates as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	(RMB in millions)		
1 - 90 days	2,351.8	1,979.7	2,815.9
91 - 180 days	92.9	1,815.9	612.2
181 - 365 days	128.7	103.3	434.3
Over 1 year	143.1	138.3	344.9
<b>Total</b>	<b>2,716.7</b>	<b>4,037.2</b>	<b>4,207.4</b>

The average credit period for accounts payable and bills payable is 90 days. We have financial risk management policies in place to ensure that all payables are settled within the applicable credit plan.

### ***Other Payables and Accrued Expenses***

The following table sets forth our other payables and accrued expenses as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	(RMB in millions)		
Customers' deposit	852.2	798.4	1,011.1
Accrued wages	1,054.5	870.7	654.9
Other taxes payable	280.1	142.4	174.1
Payables in respect of purchases of property, plant and equipment and construction materials	1,268.4	1,629.3	1,695.3
Accrued freight charges	2.3	66.0	59.0
Accrued repairs and maintenance	19.2	31.6	75.8
Staff welfare payable	242.7	319.2	625.2

	As of December 31,		
	2013	2014	2015
	(RMB in millions)		
Withholding tax payable	0.7	28.4	5.4
Deposits received from employees	14.0	24.3	90.8
Accrued land subsidence, restoration, rehabilitation and environmental costs	56.8	10.5	22.9
Interest payable	540.9	905.5	836.1
Payable on acquisition of Haosheng's equity	2,519.3	2,519.3	2,519.3
Provision on Ashton research and development project	—	115.4	—
Others	1,534.0	1,275.8	1,239.3
<b>Total</b>	<b>8,385.1</b>	<b>8,736.7</b>	<b>9,009.3</b>

Our other payables and accrued expenses increased from approximately RMB8,385.1 million as of December 31, 2013 to RMB8,736.7 million as of December 31, 2014, primarily due to the increase in payables for purchases of property, plant and equipment and construction materials as of December 31, 2014. Our other payables and accrued expenses increased from RMB8,736.7 million as of December 31, 2014 to RMB9,009.3 million as of December 31, 2015, primarily due to increase in customers' deposit.

### **Working Capital and Liabilities**

We have historically maintained sufficient working capital for our operations. Our principal source of cash in 2015 was cash generated from operating activities, bond issuance and bank borrowings.

As of December 31, 2015, we recorded net current assets of approximately RMB6,754.8 million. Our current assets increased by RMB10,724.8 million, from RMB38,086.3 million as of December 31, 2014 to RMB48,811.1 million as of December 31, 2015, primarily as a result of an increase in assets classified as held for sale of RMB7,740.5 million and an increase in bank balances and cash of RMB5,133.2 million and an increase in inventories of RMB381.9 million. The increase was partially offset by a decrease in bills and accounts receivable of RMB1,107.3 million and a decrease of term deposit of RMB2,159.2. Our current liabilities increased by RMB14,726.4 million, from approximately RMB27,329.9 million as of December 31, 2014 to RMB42,056.3 million as of December 31, 2015, primarily due to an increase in borrowings due within one year of approximately RMB13,031.5 million and an increase in other payables and accrued expenses of RMB272.6 million, which was partially offset by a decrease in provision for land subsidence, restoration, rehabilitation and environment costs of approximately RMB283.1 million.

As of December 31, 2014 and 2015, we had cash and cash equivalents of approximately RMB15,041.9 million and RMB20,175.1 million, respectively. Our cash and cash equivalents primarily consist of cash on hand and demand deposits with original maturities of three months or less that are placed with banks and other financial institutions.

As of December 31, 2014 and 2015, we had outstanding bank borrowings of approximately RMB61,438.1 million and RMB69,479.8 million, respectively. The following table sets forth the maturity profile of our bank borrowings as of the dates indicated:

	As of December 31,	
	2014	2015
	(RMB in millions)	
Less than one year	10,871.7	23,903.2
One to three years	18,918.9	14,991.0
Three to five years	5,770.0	8,795.6
More than five years	25,877.5	21,790.0
<b>Total</b>	<b>61,438.1</b>	<b>69,479.8</b>

As of December 31, 2015, the interest rates relating to our bank borrowings ranged from 0.66% to 6.40% per annum. The interest rates for these bank borrowings are variable rates that are subject to adjustment based on the interest rate set by the PBOC or LIBOR. As of the date of this annual report, our bank borrowings were denominated in Renminbi, U.S. dollars and Australian dollars. As of December 31, 2015, our total bank loans denominated in Renminbi amounted to approximately RMB5,932.5 million, our total bank loans denominated in U.S. dollars amounted to approximately US\$5,540.2 million and our total bank loans denominated in Australian dollars amounted to approximately A\$5.9 million. See Note 36 of the consolidated financial statements for more information on our borrowings. The interest expenses and exchange rate fluctuations associated with our bank borrowings may impair our future profitability.

We have, and in the future may continue to have, substantial debt. As of December 31, 2015, our long-term debt to equity ratio was 99.5%. The interest expenses associated with these debts may impair our future profitability. We may issue additional long term debts to finance short term cash flow requirements as necessary.

### **Capital Expenditures**

Our capital expenditure for the purchase of property, machinery and equipment for the year ended December 31, 2015 was RMB9,868.5 million, representing an increase of RMB4,464.4 million or 82.6% as compared with RMB5,404.1 million in 2014, which was mainly due to the increase of capital expenditure in Donghua Heavy Industry and our major coal projects construction.

Our estimated capital expenditures for 2016 are in the amount of RM8.5 billion. We plan to finance our capital commitments primarily through a combination of funds generated from operations, bank borrowings and the proceeds of the offerings of corporate bonds. The following table sets forth our estimated capital expenditures for 2016 and actual capital expenditures we incurred in 2015.

<b>Companies</b>	<b>Estimated capital expenditure for 2016</b>	<b>Capital expenditure incurred in 2015</b>
	<b>(RMB in millions)</b>	
The Company	998.5	2,669.5
Shanxi Nenghua	129.7	188.9
Yulin Nenghua	46.9	55.1
Heze Nenghua	913.5	835.7
Huaju Energy	89.5	20.8
Ordos Neng Hua	2,694.6	1,910.2
Haosheng Company	921.2	1,216.7
Yancoal Australia	1,588.0	1,649.0
Yancoal International (Holding)	355.5	246.4
Donghua Heavy Industry	753.0	1,071.7
Zhongyin Lease	6.0	4.8
<b>Total</b>	<b>8,496.4</b>	<b>9,868.5</b>

### **C. Research and Development, Patents and Licenses, Etc.**

One of our core strategies is to maintain our competitiveness and increase the efficiency of our mining operations through technology and innovation. In line with our development strategy with a focus on technology innovation, we have established a multilayer system for integrating new technology into our operations consisting of various entities, including a technology committee, a professional committee, a technology center, as well as relationships with external institutions or organizations with specialized technology development capacities. We have accumulated extensive experience and expertise in coal mining and coal processing procedures, particularly with respect to the underground raw coal mining technology. For example, our independently developed longwall top caving mining method has been adopted by various international coal mining enterprises such as DBT and has been awarded the State Scientific and Technological Progress Award (Second Class) by the National Office for Science and Technology Awards of the PRC in 2009. In 2015, we completed 82 scientific and technological achievements, among which 20 projects reached advanced international standards. In addition, we obtained 47 technological patents and received 26 technological awards at the provincial and ministerial levels. Our expenditures for research and development were RMB45.1 million, RMB33.9 million and RMB38.1 million in 2013, 2014 and 2015, respectively, accounting for 0.08%, 0.06% and 0.10%, respectively, of our total sales income for the same periods.

Our mining technology research and development efforts have contributed to increases in our production. Our predecessor first adopted the longwall top caving mining method in 1992. Since then, we have focused on modifying and updating this method, taking into account the distinct geological conditions of our mining operations. Due to our research and development efforts, we have:

- increased our production efficiency by utilizing improved mining extraction equipment;
- extended the length of certain longwall coal mine faces to approximately 260 to 350 meters, which reduced our tunneling, support equipment and related costs;
- reduced the number of coal pillars required to support mining areas, thereby enhancing our recovery;



- patented our advanced technology for longwall top caving mining in the PRC, Australia and South Africa. The use of our longwall caving extraction technology reduces the per-tonne production cost of our operations and improves the production efficiency;
- conducted research projects that contributed to the development and export of the technology for advanced two-pillar hydraulic roof supports for the top coal caving process; Bucyrus International, Inc., the largest coal mining equipment supplier worldwide, signed a technology license agreement to manufacture and use the longwall top caving coal mining equipment in Australia;
- cooperated with Peabody to trial and commercialize longwall top caving coal mining equipment; and
- implemented various innovative projects to improve equipment use, safety, energy conservation and environmental protection measures in our coal mining operations.

We intend to focus our future research and development efforts on improving our longwall caving extraction technology, fully mechanized caving operations and related equipment and mining methods for medium and thick coal seams.

## D. Trend Information

### Outlook for the Coal Market

Looking ahead to 2016, the recovery of world economy will remain slow with imbalances, and China's economic development has stepped into a new normal condition. The environment protection requirements are more and more stringent, the consumption ratio of traditional energy will be further decreasing and the competition in coal industry will be severe. Affected by market backflush and policies by the government, such as dissolving production capacity and reform of supply front and gradual improvement of economic structure and quality, it is estimated that the imbalance between supply and demand of coal market globally will ease and the bottom coal price is expected to be stable in 2016.

Year 2016 is the opening year of the "13th Five Year Plan", the year of coal supply front reform promoted by the state and tackling difficulties in coal industry to achieve profitability and the year of the Group's strategic window of rapidly accelerating to achieve industry transformation and upgrading & development opportunities for surpassing peers under adverse situation. The Group will proactively adapt the new normal condition of economic development, seize development trend of industry policies, grasp the opportunity of reform on supply front, make the overall plan of the "13th Five-Year Plan" in a scientific manner and achieve coordinated development of all businesses.

In 2016 the Group is expected to sell self-produced coal of 68.27 million tonnes, of which: 34.15 million tonnes by the headquarters, 1.20 million tonnes by Shanxi Nenghua, 3.3 million tonnes by Heze Neng Hua, 6.0 million tonnes by Ordos Neng Hua, 6.0 million tonnes by Haosheng Company, 11.34 million tonnes by Yancoal Australia, 6.28 million tonnes by Yancoal International. The sales volume of methanol will be 1.5 million tonnes.

## E. Off-balance Sheet Arrangements

As of December 31, 2015, other than the capital expenditure commitments and contractual obligations disclosed in this annual report, we did not have any off-balance sheet arrangements.

## F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2015:

	Payments Due by Period				
	Total	Less than one Year	One to three years	Three to five years	More than five years
<b>Contractual Obligations</b>					
Unsecured interest-bearing bank borrowings	11,733.0	8,263.1	3,469.9	—	—
Secured interest-bearing bank borrowings	30,127.9	5,625.9	7,028.9	6,250.9	11,222.2
Finance leases	145.7	17.5	121.2	7.0	—
Guaranteed notes	25,673.2	9,996.7	3,171.0	1,937.7	10,567.8
Loans pledged by machineries	1,800.0	—	1,200.0	600.0	—
Capital commitments for the acquisition of assets	5,098.2	5,098.2	—	—	—
Mining right compensation fee	792.6	396.3	396.3	—	—
Amounts due to Controlling Shareholder and its subsidiaries	190.2	190.2	—	—	—
<b>Total</b>	<b>75,560.7</b>	<b>29,587.9</b>	<b>15,387.2</b>	<b>8,795.6</b>	<b>21,790.0</b>

### ***Secured Bank Borrowings***

As of December 31, 2015, we had secured bank loans outstanding of approximately RMB30,127.9 million (approximately US\$4,639.6 million), which primarily consisted of secured bank borrowings obtained for settling the consideration in respect of acquisition of Yancoal Resources. The borrowings are guaranteed by the Company, counter-guaranteed by the Parent Company and secured by 46.67% of Heze ordinary shares. The borrowings are secured by a portion of our term deposits. As of December 31, 2015, we had term deposits of approximately RMB11.7 million that secured bank borrowings.

Borrowings of RMB17,730.1 million (US\$2,740 million) carried interest at three-month LIBOR plus a margin of 2.80% (approximately 3.34%) and borrowings of RMB7,265.5 million (US\$1,118.9 million) carried interest at three-month LIBOR plus a margin of a range from 1.55% to 3.20% and RMB3,896.2 million (US\$600.0 million) carrying interest at six-month LIBOR plus a margin of a range from 2.10% to 3.10% per annum. The borrowings of approximately RMB1,200.0 million (approximately US\$184.8 million) carried interest of 6.16% per annum and is subject to adjustment based on the interest rate stipulated by PBOC. Other borrowings incurred in connection with our acquisition of Gloucester, amounting to approximately RMB36.1 million, (approximately US\$5.6 million) carried interest at 5.68%. For more information on our secured borrowings, please see Note 36 to the consolidated financial statements.

### ***Unsecured Bank Borrowings***

We had unsecured bank borrowings of RMB11,733.0 million as of December 31, 2015, including loans in the amount of RMB954.6 million (US\$147.0 million), carrying interest at LIBOR plus a margin of 2.60% per annum, obtained by Zhongyin Financial, and a loan in the amount of RMB7,017.0 million (US\$1,080.6 million), carrying interest at three-month LIBOR plus a margin of a range from 0.05% to 2.40% per annum. For more information about our unsecured borrowings, please see Note 36 to the consolidated financial statements to this annual report.

### ***The Offering of RMB Denominated Short Term Notes and Non-public Issuance of Financing Instruments***

See “Item 4. Information on the Company – A. History and Development of our Company – The Offering of RMB Denominated Short term notes and Non-public Issuance of Financing Instruments.”

### **Amounts due to Controlling Shareholder and its Subsidiaries**

The amounts due to the Controlling Shareholder and its subsidiary companies do not bear any interest and are unsecured. The following table sets forth the amounts due to the Controlling Shareholder and its subsidiary companies as of December 31, 2014 and 2015.

	As of December 31,	
	2014	2015
	(RMB'000)	
<b>Term for Repayment</b>		
Within one year	190,408	190,150
More than one year, but not exceeding two years	—	—
Total due	190,408	190,150
<b>Less: amounts due within one year</b>	(190,408)	(190,150)
Amounts due over one year	—	—

As of December 31, 2015, neither the Controlling Shareholder nor its subsidiaries had used our funds for non-operational matters.

### **Critical Accounting Policies and Estimates**

We prepare our consolidated financial statements in accordance with IFRS as issued by the IASB. Our financial statements have been prepared on a going concern basis and based on actual transactions and events, in accordance with Accounting Standards for Business Enterprises (referred to as “ASBEs”) and other related regulations issued by the MOF and accounting policies and estimates stated in Note IV to our consolidated financial statements. The preparation of these financial statements requires us to make estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately. These judgments, estimates and assumptions are based on the historical experience of our management as well as other relevant factors. Actual results may differ from these estimates. We review the foregoing judgments, estimates and assumptions regularly on a going concern basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical estimates that we have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognized in our consolidated financial statements.

#### **Depreciation**

The cost of mining structures is depreciated using the units of production method based on the estimated production volume for which the structure was designed. Management exercises its judgment in estimating the useful lives of the depreciable assets and the production volume of each mine. The estimated coal production volume of each mine is updated on a regular basis and takes into account recent production and technical information of each mine. These changes are considered changes in estimates for accounting purposes and are reflected on a prospective basis in related depreciation rates. Estimates of the production volumes are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information.

#### **Amortization of assets**

Mining reserves, mining resources and rail access rights are amortized on a straight-line basis or unit of production basis over the shorter of their useful lives and the contractual period. The expensing of overburden removal costs is based on saleable coal production over the estimated economically recoverable reserves. The useful lives are estimated on the basis of the total proven and probable reserves of a coal mine. Proven and probable coal reserve estimates are updated on a regular basis and take into account each mine’s recent production and technical information.

### **Provision for land subsidence, restoration, rehabilitation and environmental costs**

The provision for land subsidence, restoration, rehabilitation and environmental costs is reviewed regularly to verify that it properly reflects the remaining obligation arising from the current and past mining activities. Provisions for land subsidence, restoration, rehabilitation and environmental costs are determined by our management based on past experience, its estimate of current and future costs and predictions for government policies.

### **Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The determination of value in use requires us to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. As of December 31, 2015, the carrying amount of goodwill was approximately RMB2,296.1 million. During the year ended December 31, 2015, no impairment loss on goodwill was recognized by the Group. Cash flow projections during the budget period for each of the above units are based on the budgeted revenue and expected gross margins during the budget period and the raw materials price inflation during the budget period. Expected cash inflows/outflows have been determined based on past performance and management's market development expectations.

### **Estimated impairment of property, plant and equipment**

When there are indications of impairment, we take into consideration the estimate of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. When actual future cash flows are less than expected, a material impairment loss may arise. In estimating future cash flows, management takes into account recent production and technical advancements. As price and cost levels change from year to year, the estimate of future cash flows also changes. Notwithstanding that management has considered all the available information in making their impairment assessment, inherent uncertainty exists as to the conditions of mines and the environment, and actual write-offs may be higher than the estimated amounts. As of December 31, 2015, the carrying amount of property, plant and equipment was approximately RMB45,616.0 million. During the year ended December 31, 2015, no property, plant and equipment was written off as expenses. We did not recognize any impairment loss on property, plant and equipment during the year ended December 31, 2015.

### **Estimated impairment of mining reserves**

When there are indications of impairment, we take into consideration the estimate of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. When actual future cash flows are less than expected, a material impairment loss may arise. In estimating future cash flows, management takes into account recent production and technical advancements. As price and cost levels change from year to year, the estimate of future cash flows also changes. Notwithstanding that management has considered all the available information in making their impairment assessment, inherent uncertainty exists as to the conditions of mines and the environment, and actual write-offs may be higher than the estimated amounts.

The recoverable amount of cash generating units is assessed by management at the operating segment level. Business performance is reviewed by management on a mine by mine basis and each mine is considered to be a separate cash generating unit. The recoverable amount of each cash generating unit at December 31, 2015 was determined using the value in use method.

Value in use has been determined using a discounted cash flow model and key assumptions include coal prices, foreign exchange rates, production and capital costs, discount rate and coal reserves and resources. In determining the value assigned to each key assumption, management has used external sources of information and utilized the expertise of external and/or internal consultants and experts to validate entity specific assumptions such as coal reserves and resources.

Based on the impairment review, the recoverable amounts of coal reserves of Moolarben and Stratford & Duralie, both of which are coal mines of Yancoal Australia, were determined to be less than the carrying amounts and hence resulting with no impairment loss to be recognized. The cash flow forecast used assumed an average long term real coal prices of US\$55 – US\$166 per tonne, AUD/US\$ exchange rate of \$0.73 without any significant fluctuation over the next five years and a post-tax discount rate of 10.5%. Production and capital costs were based on the estimate of forecasted geological conditions, stage of existing plant and equipment and future production levels. The recoverable amount is also dependent on the life of mines which is based on the annual coal production forecast.

### **Allowance for doubtful debts**

The Group determines the provision for impairment on bills and accounts receivable (Note 18) and other receivables (Note 21). This estimate is based on the credit history of the customers and the current market condition. The management reassesses the adequacy of provision on a regular basis by reviewing the individual account based on credit quality and past credit history, ongoing relationship with the Group and any prior knowledge of debtor insolvency or other credit risk which might not be easily accessible public information and market volatility might bear a significant impact which might not be easily ascertained.

### **Acquisitions**

During the year, we acquired several subsidiaries or business as set out in Notes 46, 47 and 48 to the consolidated financial statements included in this annual report. We determined whether acquisitions were to be accounted for as an acquisition of business or an acquisition of assets based on factors including (i) whether the acquiree has relevant input, process or output and (ii) whether the acquiree has planned principal activities or is pursuing a plan to produce output and has access to a customer base.

In addition, management also made judgments in determining whether we would register the transfer of certain operating licenses immediately upon the payment of consideration.

### ***Recent Changes in Accounting Pronouncements***

In the current year, we have applied, for the first time, a number of new standards and interpretations, amended and revised standards and interpretations (“new IFRSs”) issued by the IASB which are effective for our fiscal year beginning January 1, 2015:

Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle

Except as described above, the accounting policies adopted for the current year are consistent with those adopted for the Group’s financial statements for the year ended December 31, 2015.

Except as described below, the application of the above new or revised IFRSs for the current year had no material impact on the amounts reported and/or disclosures set out in the consolidated financial statements for the year.

The amendments contained in these two cycles of annual improvements set out amendments to a number of IFRSs. Other than those that are relevant to the Group, the adoption of these amendments has no material impact on the Group’s consolidated financial results or positions.

Amendments to IFRS 8 “Operating Segments” require disclosures of the judgments made in identifying the reportable segment when operating segments have been aggregated and clarifies that reconciliation between the total reporting segments’ assets and the entity’s assets is required only if the segment assets are regularly reported to the chief operating decision maker. The amendments do not have any impact on the Group’s operating segment after directors’ assessment.

Amendments to IAS 24 “Related Party Disclosures” amends the definition of a ‘related party’ to include ‘management entities’ that provide key management personnel services to the reporting entity, requires the disclosure of the amounts recognized as a service fee to a separate management entity for the provision of the key management personnel services and provides a relief so that disclosure of components of the compensation to key management personnel where is paid via a management entity is not required. The amendments do not have any impact on the Group’s related party disclosures as the Group did not pay any service fee to a separate management entity for the provision of the key management personnel services.

### **G. Safe Harbor**

See the section headed “Cautionary Statement Regarding Forward-Looking Statements”.

## **ITEM 6. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **A. Directors, Supervisors and Senior Management**

The following table sets forth selected information concerning our board of directors (“Board of Directors” or “Board”), Supervisory Committee (“Supervisory Committee”) and executive officers as of the date of this annual report. As of the date of this annual report, our Board of Directors consists of 10 Directors, including one chairman, four independent Directors and one employee Director. All Directors serve three-year terms beginning their respective election date until the election of their respective successor.

As more than 50% of our voting power is held by the Controlling Shareholder, we are not required to have a majority of our Board be comprised of independent Directors in reliance on the exemption provided under Section 303A of the NYSE Listing Rules.

The following table sets forth information on our Directors, supervisors and executive officers during the year ended December 31, 2015 and up to the date of this annual report:

<u>Name</u>	<u>Age</u>	<u>Position at the Company</u>	<u>Date Term of Office Expires<sup>1</sup></u>
<b><i>Directors</i></b>			
LI Xiyong	52	Chairman of the Board of Directors	May 2017
YIN Mingde	53	Director (in office), General Manager (resigned)	June 2016
WU Yuxiang	54	Director (in office) and Chief Financial Officer (resigned)	May 2017
ZHANG Baocai	48	Director (in office), Deputy General Manager (resigned) and Secretary of the Board of Directors (resigned)	June 2016
WU Xiangqian	50	Director and General Manager	May 2017
JIANG Qingquan	52	Employee Director	May 2017
<b><i>Independent Non-executive Directors</i></b>			
WANG Lijie	63	Independent Non-executive Director	May 2017
JIA Shaohua	65	Independent Non-executive Director	May 2017
WANG Xiaojun	61	Independent Non-executive Director	May 2017
XUE Youzhi	51	Independent Non-executive Director	June 2016
<b><i>Supervisors</i></b>			
ZHANG Shengdong	59	Chairman of the Supervisory Committee	May 2017
GU Shisheng	55	Vice Chairman of Supervisory Committee	May 2017
ZHEN Ailan	52	Supervisor	May 2017
GUO Jun	53	Employee Supervisor	May 2017
CHEN Zhongyi	50	Employee Supervisor	May 2017
<b><i>Other Management Team</i></b>			
SHI Chengzhong	53	Deputy General Manager	May 2017
LIU Chun	54	Deputy General Manager	May 2017
DING Guangmu	55	Deputy General Manager	May 2017
WANG Fuqi	51	Chief Engineer	May 2017
ZHAO Honggang	50	Deputy General Manager	May 2017
ZHAO Qingchun	48	Chief Financial Officer	May 2017
JIN Qingbin	38	Secretary of the Board	May 2017

(1) The expiration of the term of office is generally the date of the shareholders' meeting when a new session of the Board will be elected. Executives who retire in the interim are replaced at the next Board meeting.

#### ***Executive Directors***

**LI Xiyong**, born in October 1963, a research fellow in applied engineering technology with an EMBA degree, is the chairman of the Company and chairman and secretary of the party committee of Yankuang Group. Mr. Li commenced his career in 1981. He was appointed as the head of Huafeng Coal Mine of Xinwen Mining Group Co., Ltd. ("**Xinwen Group**") in May 2001. In June 2006, he was appointed as the deputy general manager of Xinwen Group. In May 2010, he was appointed as the chairman and secretary of the party committee of Xinwen Group. In March 2011, he was appointed as the vice chairman of Shandong Energy Group Co., Ltd. and the chairman and secretary of the party committee of Xinwen Group. In July 2013, he was appointed as the director, general manager and deputy secretary of the party committee of Yankuang Group. In February 2015, he was appointed as the chairman and party committee secretary of Yankuang Group. In September 2013, he was appointed as the chairman of the Company. Mr. Li graduated from Shandong University of Science and Technology and Nankai University.

**YIN Mingde**, born in December 1962, a senior engineer, a senior administrative officer and a certified safety engineer with a master's degree, is a Director and the general manager of the Company. Mr. Yin joined the Company's predecessor in 1980 and became deputy manager of Beisu Coal Mine in 1997. In 2000, he was appointed as the deputy director of Marketing Department under Strategic Resource Development Department of Yankuang Group. In 2002, he was appointed as the general manager of Yankuang Group Shanxi Neng Hua Co., Ltd. In 2006, he was appointed as the general manager of Yanzhou Coal Shanxi Neng Hua Co., Ltd. and the chairman and party committee secretary of Shanxi Tianhao Chemicals Co., Ltd. In 2011, he was appointed as the general manager and deputy secretary of party committee of Yanzhou Coal Ordos Neng Hua Co., Ltd. In 2012, he was appointed as the chairman, general manager and deputy secretary of party committee of Yanzhou Coal Ordos Neng Hua Co., Ltd. and the chairman of Inner Mongolia Haosheng Coal Mining Co., Ltd. In March 2014, he was appointed as the general manager of the Company. In May 2014, he was appointed as a Director of the Company. Mr. Yin graduated from East China Normal University.

**WU Yuxiang**, a senior accountant with a master's degree in accounting, has served as a Director and the chief financial officer of the Company since 2002. Mr. Wu joined the Company's predecessor in 1981 and was appointed as the Company's manager of the Finance Department in 1997. Mr. Wu was appointed as a Director and the chief financial officer of the Company in 2002. He is a graduate of the Party School of Shandong Provincial Communist Committee.

**ZHANG Baocai**, a senior accountant with an EMBA degree, is a Director, deputy general manager and the Board secretary of the Company. Mr. Zhang joined the Company's predecessor in 1989 and was appointed as the head of the Planning and Finance Department of the Company in 2002. He was appointed as a Director and the Board secretary of the Company in 2006 and a deputy general manager of the Company in 2011. He is a graduate of Nankai University.

**WU Xiangqian**, born in February 1966, a research fellow in applied engineering technology and a doctor of engineering, is a Director of the Company. Wu joined the predecessor Company in 1988. In 2003, he was appointed as a deputy head of Jining No.3 Coal Mine of the Company. In 2004, Mr. Wu was appointed as the deputy head and chief engineer of Jining No.3 Coal Mine. In 2006, he was appointed as the head of Jining No.3 Coal Mine. In March 2014, he was promoted as the chairman and general manager of Yanzhou Coal Ordos Neng Hua Co., Ltd. and chairman of Inner Mongolia Haosheng Coal Mining Co., Ltd. In May 2014, he was appointed as a Director of the Company. Mr. Wu graduated from Shandong University of Science and Technology.

**JIANG Qingquan**, born in December 1963, a senior administrative officer and engineer with a master's degree, is an employee Director of the Company. Mr. Jiang joined the Company's predecessor in 1984 and served as the office director of Safety Supervision Bureau of Yankuang Group in 1994 (worked in Personnel Division of Yankuang Group from November 1996 to September 1997). He served as the vice president of Yankuang Group General Hospital in 1997 (worked in Organization Department of Yankuang Group from June 1999 to January 2000). He served as the party committee secretary of the Railway Transportation Department of Yankuang Group in 2000. He served as the head and the deputy party committee secretary of the Railway Transportation Department in 2004. He was appointed as the general manager assistant of the Company in 2012 and the chairman of the Trade Union of the Company in March 2014. He was appointed as an employee Director of the Company in April 2014. Mr. Jiang graduated from the Qufu Normal University and the Party School of Shandong Provincial Communist Committee.

### ***Independent Non-executive Directors***

**WANG Lijie**, born in March 1953, is a professor and doctoral advisor. Mr. Wang is currently the director of the Institute for Energy Economics Research at China University of Mining and Technology (Beijing), the director of Coal Professional Committee of China Society of Technology Economics and the deputy director of Economic Management Professional Committee of China Coal Society. Mr. Wang is a professional technical talent in the coal industry, who enjoys government special allowances. He was the dean of School of Management of China University of Mining and Technology (Beijing), mainly engages in research work in mining, energy economics management and policy, business strategy etc. Mr. Wang is also the independent director of Beijing LongRuan Technologies Inc. and Henan Dayou Energy Co., Ltd. Mr. Wang graduated from China University of Mining and Technology (Beijing).

**JIA Shaohua**, born in December 1950, doctor of economics, a researcher, Mr. Jia is currently the director of Tax Education Institute of the Central University of Finance and Economics and vice president of the China Society for Finance and Tax Law, as well as the graduate advisor of the Central University of Finance and Economics, the Graduate School of Chinese Academy of Social Sciences, the Graduate School of Research Institute of MOF, who enjoys the special allowance from the State Council. Mr. Jia was the director of the Finance Department in Ningxia Autonomous Region, the deputy general manager of Hainan Commercial Group Company, the deputy director of Jiangxi and Hainan Provincial Office, SAT, the dean of Tax Leadership Academy of the SAT, and the edition-in-chief of the China Taxation Publisher etc. Mr. Jia has rich experience in accounting & tax and completed over a number of key research subjects at national and provincial level. Mr. Jia is also the independent director of Harbin Electric Corporation Jiamusi Electric Machine Co., Ltd., JA Solar Holdings Co., Ltd., Zhuhai Letong Chemical Co., Ltd. and Haima Automobile Group Co., Ltd. Mr. Jia graduated from the Graduate School of Chinese Academy of Social Sciences.



**WANG Xiaojun**, born in August 1954, a solicitor admitted in the PRC, Hong Kong, England and Wales, a holder of master degree in law, is a partner of Jun He Law Offices and an independent non-executive Director of the Company. He was admitted in the PRC, Hong Kong, England and Wales in 1988, 1995 and 1996, respectively. Mr. Wang has worked as a legal adviser at the Hong Kong Stock Exchange and Richards Butler. He was an independent non-executive Director of the Company from 2002 to 2008, Mr. Wang is also an independent non-executive director of China Aerospace International Holdings Limited, Livzon Pharmaceutical Group Co., Ltd. and Oriental Patron Financial Investments Ltd. Mr. Wang graduated from the Renmin University of China and the Graduate School of the Chinese Academy of Social Sciences.

**XUE Youzhi**, born in March 1965, is a holder of a master degree in corporate management, a doctoral degree in economics, a postdoctoral degree in business administration. Mr. Xue is currently the vice president, the professor and the doctoral advisor in the School of Business of Nankai University. Mr. Xue has rich experience in economics & management and completed over a number of national natural science fund and national social science fund projects. Mr. Xue was appointed as the vice president of the School of Business of Nankai University in 2005. Mr. Xue graduated from Jilin University and Nankai University.

### *Supervisors*

**ZHANG Shengdong**, born in March 1957, a senior accountant, is the vice chairman of the Supervisory Committee of the Company and the deputy general manager of Yankuang Group. Mr. Zhang joined the Company's predecessor in 1981 and became the director of the Finance Management Department of Yankuang Group in 1999. Mr. Zhang served as the deputy chief accountant of Yankuang Group and a supervisor of the Company in 2002. Mr. Zhang was appointed as the general manager assistant of Yankuang Group in 2008. Mr. Zhang was appointed as the deputy general manager of Yankuang Group in January 2014 and the vice chairman of the Supervisory Committee in May 2014. Mr. Zhang graduated from China University of Mining and Technology.

**GU Shisheng**, born in January 1964, a professor level senior administrative officer with a master's degree, is a supervisory of the Company and the chairman of the Trade Union of Yankuang Group. Mr. Gu joined the Company's predecessor in 1979. He served as the deputy party committee secretary of Xinglongzhuang coal mine of Yankuang Group in 1996 and the party committee secretary of Xinglongzhuang coal mine of the Company in 2002. He served as the deputy secretary of the Discipline Inspection Commission and the director of Supervision Department of Yankuang Group in 2003. He was appointed as the chairman of the Trade Union of Yankuang Group in January 2014 and a supervisor of the Company in May 2014. Mr. Gu graduated from the Party School of Shandong Provincial Communist Committee.

**ZHEN Ailan**, born in November 1963, is a senior accountant, a senior auditor, a supervisor of the Company, the deputy chief accountant and the director of the Audit & Risk Department of Yankuang Group. Ms. Zhen joined the predecessor Company in 1980. She served as the deputy director of the Audit Division of Yankuang Group in 2002 and was appointed as the deputy director of the Audit Department of Yankuang Group in 2005. In 2012, Ms. Zhen served as the director of the Audit Department of Yankuang Group. In March 2014, she was appointed as the deputy chief accountant and the director of the Audit & Risk Department of Yankuang Group. In 2008, Ms. Zhen served as a supervisor of the Company. Ms. Zhen graduated from Dongbei University of Finance and Economics.

**GUO Jun**, born in January 1963, is a professor-level senior administrative officer, a senior economist, a doctor of business administration, an employee supervisor of the Company and the secretary of the Discipline Inspection Commission of Yankuang Group. Mr. Guo joined the predecessor Company in 1980 and served as the director of the economic division of the General Manager's Office in 1996. He was appointed as the deputy director of the General Manager's Office in 1997 and served as the office director of Board of Directors respectively in 2000 and 2002. He was appointed as the secretary of the Party committee and deputy chief of Baodian Coal Mine of the Company in 2004. In March 2014, Mr. Guo was appointed as the secretary of the Discipline Inspection Commission of the Company and served as the employee supervisor of the Company in April 2014. Mr. Guo graduated from the China Mining University (Beijing).

**CHEN Zhongyi**, born in December 1965, is a professor-level senior administrative officer with a bachelor's degree, an employee supervisor of the Company and the vice chairman of trade union. Mr. Chen joined the predecessor Company in 1986 and served as the director of the Mass Work Department, the secretary of the Youth League Committee and the vice chairman of trade union in 2002. He was appointed as the vice chairman of trade union in 2008 and served as the director of Parties Working Department of the Company in March 2014. In April 2014, Mr. Chen was appointed as an employee supervisor of the Company. Mr. Chen graduated from the Party School of CPC Shandong Provincial Committee.

### ***Other Executive Officers***

**SHI Chengzhong**, born in December 1962, a research fellow in applied engineering technology with a master's degree in mining engineering and an EMBA degree, serves as a deputy general manager of the Company. Mr. Shi joined the predecessor Company in 1983 and served as a deputy chief engineer of Yankuang Group in 2000. Mr. Shi was appointed as a deputy general manager of the Company in 2002. Mr. Shi graduated from Northeastern University and Nankai University.

**LIU Chun**, born in September 1961, a research fellow in applied engineering technology with an EMBA degree, serves as a deputy general manager of the Company. Mr. Liu joined the predecessor Company in 1983 and was appointed as the director of Coal Sales and Transportation Department of the Company in 2002. Mr. Liu has been promoted to be a deputy general manager of the Company in 2011. Mr. Liu graduated from Nankai University.

**DING Guangmu**, born in September 1960, a senior economist with an EMBA degree, serves as a deputy general manager of the Company. Mr. Ding joined the predecessor Company in 1978 and served as the director of Vehicle Management Division of Yankuang Group. In 1999, he was appointed as deputy director of Materials & Goods Supply Centre of the Company. In 2002, he was appointed as the director and deputy secretary of party committee of Materials & Goods Supply Centre of the Company. In 2013, he served as the assistant general manager of the Company. In March 2014, he was appointed as the deputy general manager of the Company. Mr. Ding graduated from Shanghai Maritime University.

**WANG Fuqi**, born in May 1964, a research fellow in applied engineering technology with an EMBA degree and master of engineering, serves as the chief engineer of the Company. Mr. Wang joined the predecessor Company in 1985. In 2000, he was appointed as the chief engineer of Production and Technology Division of Yankuang Group. In 2002, he served as the director of Production and Technique Department of the Company. In 2003, he was appointed as the deputy chief engineer of the Company and director of Production and Technique Department of the Company. In March 2004, he served as the chief engineer of the Company. Mr. Wang graduated from Northeastern University and Nankai University.

**ZHAO Honggang**, born in November 1965, a research fellow in applied engineering technology and master of engineering, serves as the deputy general manager of the Company. Mr. Zhao joined the predecessor Company in 1987 and served as the deputy chief of Dongtan Coal Mine of the Company in March 2006. In March 2009, he was appointed as the director of Electromechanical Department. In December 2013, he served as the chairman and general manager of Shandong Huaju Energy Co., Ltd. In December 2014, he was appointed as the deputy general manager of the Company. Mr. Zhao graduated from Shandong University of Science and Technology.

**ZHAO Qingchun**, born in March 1968, a senior accountant with an EMBA degree, is the Chief Finance Officer of the Company. Mr. Zhang joined the Company's predecessor in 1989 and was appointed as the chief accountant of Finance Department in 2002 and director of the Planning and Finance Department of the Company in 2006. In March 2011, he served as the vice Chief Finance Department and director of the Finance Department of the Company. In March 2014, Mr. Zhao was appointed as general manager assistant and director of the Finance Management Department of the Company. In November 2015, Mr. Zhao also served as the director of Futures Finance Department of the Company. In January 2016, he was appointed as the Chief Finance Officer of the Company. Mr. Zhao graduated from Nankai University.

**JIN Qingbin**, born in November 1977, a senior accountant and senior economist with bachelor of economics, is the secretary to the Board of the Company. Mr. Jin joined the Company in 1998 and was appointed as the deputy director and director of the Secretariat to the Board of the Company and obtained the qualification for the board secretary of listed companies in Shanghai Stock Exchange in November 2008. Mr. Jin was appointed as the security representative of the Company in November 2013 and the secretary to the Board in March 2016. Mr. Jin graduated from Shandong Economics University.

### ***Appointment, Resignation and Election of Directors, Supervisors and Senior Management***

Details of the appointment, resignation and election of directors, supervisors and senior management of the Company during the year ended December 31, 2015 and up to the date of this annual report are set out below.

#### ***(1) Changes of Members of the Sixth Session of the Board***

Due to work allocation, Mr. Zhang Xinwen tendered resignation to the Board. He resigned for the position of Director and vice chairman with effect from March 13, 2015.

Mr. Xue Youzhi tendered resignation to the Board on December 30, 2015. Pursuant to relevant regulations of the Ministry of Education, he proposed to resign from the position of independent director and other relevant positions in the special committee to the Board. He shall continue to perform his duties pursuant to the applicable laws, regulations, and the Articles of Association of the Company before a new independent director is elected and appointed in the general meeting of shareholders.

Mr. Yin Mingde and Mr. Zhang Baocai tendered resignations to the Board on March 29, 2016 due to work allocation, and resigned from the position of directors and other relevant positions in the special committee to the Board. Mr. Yin Mingde and Mr. Zhang Baocai shall continue to perform their duties pursuant to the applicable laws, regulations, and the Articles of Association of the Company before new directors are elected and appointed in the general meeting of shareholders.

As reviewed and approved at the seventeenth meeting of the sixth session of the board meeting convened on March 29, 2016, the Board of the Company nominated Mr. Li Wei, Mr. Zhao Qingchun and Mr. Guo Dechun to be the candidates of the non independent directors of the Company and Mr. Qi Anbang as the candidate of the independent director of the Company, which shall be submitted to the annual general meeting of 2015 for election.

### ***(2) Changes of Members of the Sixth Session of the Supervisory Committee***

Mr. Shi Xuerang has reached the age of retirement and tendered his resignation to the Company. He resigned from the positions of a Supervisor and the chairman of the Supervisory Committee of the Company with effect from June 30, 2015.

As reviewed and approved at the sixth meeting of the sixth session of the Supervisory Committee meeting convened on July 1, 2015, the Supervisory Committee of the Company nominated Mr. Zhang Shengdong and Mr. Gu Shisheng as the chairman and vice chairman of the Supervisory Committee of the Company respectively.

Due to work allocation, Ms. Zhen Ailan, a Supervisor of the Company, tendered her resignation to the Company on March 29, 2016. She resigned from the position of a supervisor of the Company with effect from March 29, 2016.

As reviewed and approved at the ninth meeting of the sixth session of Supervisory Committee meeting convened on March 29, 2016, the Supervisory Committee of the Company nominated Mr. Meng Qingjian and Mr. Xue Zhongyong as candidates of the supervisors of the Company, which shall be submitted to the annual general meeting of 2015 for election.

### ***(3) Changes of Members of the Sixth Session of Senior Management***

Due to work allocation, Mr. Yin Mingde tendered his resignation to the Company. He resigned from the position of general manager of the Company with effect from December 7, 2015.

As approved at the fifteenth meeting of the sixth session of the Board held on January 6, 2016, Mr. Wu Xiangqian was appointed as the general manager of the Company and Mr. Zhao Qingchun was appointed as the chief financial officer of the Company. Mr. Wu Yuxiang resigned from the position of the chief financial officer.

Mr. Zhang Baocai, the former deputy general manager of the Company and the secretary to the Board, tendered resignation to the Company for work allocation, He resigned from the position of the deputy general manager of the Company, the secretary to the Board and the secretary of the Company with effect from March 29, 2016.

Save as disclosed above, there was no other appointment or resignation of Directors, supervisors and senior management during the reporting period.

## B. Compensation

In 2015, One Director, LI Xiyong, and two supervisors, ZHANG Shengdong, and GU Shisheng receive salaries from our Controlling Shareholder, while the rest of our Directors, supervisors and executive officers who are our employees receive compensation in the form of salaries, housing allowances and other allowances and benefits, including pension contributions. The aggregate amount of cash remuneration paid by us to Directors, supervisors and executive officers for the years 2013, 2014 and 2015 was approximately RMB5.324 million, RMB8.294 million and RMB8.566 million (tax inclusive), respectively. The aggregate amount of remuneration paid by us to resigned Directors, supervisors and executive officers for 2015 was nil. We did not pay any discretionary bonus during the reporting period of this annual report to our directors, supervisors or executive officers. Details of each of the directors', supervisors' and senior management members' salaries and benefits provided by our Company are as follows:

	Fees RMB'000	For the year ended December 31, 2015 Salaries, allowance and other benefits in kind RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
<b>Independent non-executive directors</b>				
Wang Xiaojun	130.1	—	—	130.1
Xue Youzhi	130.1	—	—	130.1
Wang Lijie	130.1	—	—	130.1
Jia Shaohua	130.1	—	—	130.1
	<u>520.4</u>	<u>—</u>	<u>—</u>	<u>520.4</u>
<b>Executive directors</b>				
Zhang Xinwen**	—	—	—	—
Wu Yuxiang	—	521.6	101.4	623.0
Zhang Baocai	—	1,713.8	42.1	1,755.9
Yin Mingde	—	554.4	107.9	662.4
Wu Xiangqian	—	636.8	124.4	761.2
Jiang Qingquan	—	447.6	86.5	534.1
	<u>—</u>	<u>3,874.2</u>	<u>462.3</u>	<u>4,336.5</u>
<b>Chief executive director</b>				
Li Xiyong*	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Supervisors</b>				
Shi Xuerang***	—	—	—	—
Zhang Shengdong*	—	—	—	—
Gu Shisheng*	—	—	—	—
Zhen Ailan*	—	—	—	—
Guo Jun	—	476.6	92.4	568.9
Chen Zhongyi	—	401.9	77.4	479.3
	<u>—</u>	<u>878.5</u>	<u>169.8</u>	<u>1,048.2</u>
<b>Other management team</b>				
Liu Chun	—	525.9	102.2	628.1
Shi Chengzhong	—	547.8	106.6	654.4
Wang Fuqi	—	469.1	90.8	559.9
Ding Guangmu	—	464.5	89.9	554.5
Zhao Honggang	—	520.9	101.2	622.1
Zhao Qingchun	—	461.9	89.4	551.3
Jin Qingbin	—	302.6	57.6	360.2
	<u>—</u>	<u>3,292.7</u>	<u>637.8</u>	<u>3,930.5</u>
Total	<u>520.4</u>	<u>8,045.4</u>	<u>1,269.8</u>	<u>9,835.6</u>

\* Emoluments paid to these directors, chief executive, supervisors and management team were borne by the Controlling Shareholder.

\*\* Zhang Xinwen resigned as Director on March 13, 2015

\*\*\* Shi Xuerang resigned as Supervisor on June 30, 2015

## **C. Board Practices**

### ***Board of Directors***

Directors are elected to serve three year terms. We have adopted cumulative voting for the election of a new Board of Directors.

Pursuant to our Articles of Association, the Board of Directors is accountable to shareholders in general meeting and exercises the following functions and powers:

- (i) convening shareholders' meetings and reporting on the work of the Board of Directors at general meetings;
- (ii) implementing resolutions passed by the shareholders at general meetings;
- (iii) determining our business plans and investment proposals;
- (iv) formulating our annual preliminary and final budgets;
- (v) formulating our profit distribution and loss recovery proposals;
- (vi) formulating proposals for the increase or reduction of our registered capital and the issuance of our debentures or other forms of securities;
- (vii) drawing up plans for material acquisitions, repurchases of shares of the Company, mergers, divisions, dissolutions or changes of corporate structure;
- (viii) deciding our internal management structure;
- (ix) appointing or removing our general manager and secretary of the board and appointing or removing the deputy general manager(s) and other senior officers (including the financial controller(s) of the Company) based on the recommendations of the general manager, to decide on their remuneration and matters relating to awards and penalty;
- (x) formulating our basic management system;
- (xi) formulating proposals for any amendments of the Articles of Association;
- (xii) deciding on our business involving overseas investments, acquisitions and disposals of assets, mortgages of assets and other guarantees, entrusted assets management and connected transactions within the authority conferred by the general meeting;
- (xiii) managing the disclosure of information relating to the Company;

- (xiv) making recommendations on the appointment or replacement of the Company's independent auditors to shareholders at shareholders' general meetings;
- (xv) reviewing management's performance based on the working report submitted by management;
- (xvi) approving an aggregate amount of provision for impairment of assets not more than 10% of our latest audited consolidated net asset value, clearing an amount of provision for impairment of assets not more than 5% of our latest audited consolidated net asset value, and executing and clearing any provision of impairment of assets involving connected transactions in compliance with relevant connected transaction regulations; and
- (xvii) being responsible for matters with respect to the Company's corporate governance, including (i) developing and reviewing the Company's policies and practices on corporate governance; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management; (iii) reviewing and monitoring the Company's policies and practices on the compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors; and (v) reviewing the Company's compliance with the code of the stock exchange on which the Company's securities are listed and the disclosure in the corporate governance report.
- (xviii) exercising any other powers specified by the law, administrative regulations, departmental rules, the Articles of Association and conferred by shareholders at a general meeting.

Except for matters specified in (vi), (vii) and (xi), which require the affirmative vote of more than two-thirds of all of the Directors, resolutions in respect of the above listed matters can be approved by a simple majority of the Directors.

The Board of Directors makes decisions on the company's scope of authority and inspection and decision making procedures with respect to company matters relating to foreign investment, asset sales and purchases, mortgages, guarantee provisions, entrusted asset management and connected transactions and, if a major investment involved, should appoint experts and professionals to make an assessment and submit such assessment to the shareholders' meeting for approval.

With the approval of over two-thirds of all Directors, the Board of Directors may make decisions on the following matters:

- (1) transactions falling within the strictest of the following limits with respect to asset sales and purchases, foreign investment (including entrusted financial management and entrusted loans), financial assistance provisions, leasing of assets as lessor or lessee, restructuring of claims or debts, giving or receiving assets as a gift, entrusted or trusted asset or business management, license agreements, and research and development projects:
  - a. the total assets value (where book value and assessed value are available, whichever is higher) involved in a single transaction with amount more than 10% and below 50% of the Company's latest audited total asset value prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the Company's latest published total assets value prepared in accordance with the IFRS;
  - b. a single investment of which the completion consideration (including liabilities and expenses) accounts for more than 10% and less than 50% of the Company's latest audited net asset value prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the total market capitalization of the Company (which is calculated by the average closing price of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of a transaction);
  - c. the latest annual income from principal operations of the subject of a single transaction which accounted for more than 10% and less than 50% of the Company's latest audited income from principal operations for the latest financial year prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the Company's latest audited income from principal operations for the latest financial year prepared in accordance with the IFRS; and
  - d. the latest annual net profit of the subject of a single transaction which accounted for more than 10% and less than 50% of the Company's latest audited net profit for the latest financial year prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the Company's latest audited net profit for the latest financial year prepared in accordance with the IFRS.

The above transactions that involve a public offer of securities, which requires the approval of the China Securities Regulatory Commission, shall be subject to a vote at the shareholders' general meeting;

- (2) a single loan representing more than 10% and less than 25% of the Company's most recently audited net asset value if the debt ratio to the Company's assets remains under 80% after such financing and the inter-company loans between overseas subsidiaries as long as it is compliance with relevant laws and regulations and the accumulative outstanding amount in the last 12 months is more than 25% and less than 50% of the Company's most recently audited net asset value prepared in accordance with the PRC GAAP;
- (3) mortgages or pledges of assets so long as the cumulative outstanding amount is less than 30% of the Company's most recently audited net asset value;
- (4) external guarantees that do not require the approval of the shareholders pursuant to the Articles of Association; and
- (5) connected transactions, which must be conducted in accordance with the relevant regulations of competent securities authorities and the listing rules of applicable stock exchanges.

The transactions referred to in item (1) above that involve the provision of financial assistance and entrusted financial management are calculated on an accrued basis for twelve consecutive months according to the transaction categories and applicable approval limit proportion of the Board of Directors. When the Company conducts transactions other than those involving the provision of financial assistance and entrusted financial management, relevant approval requirements of the Board of Directors regarding each transaction under the same category shall be calculated on the principle of accrued basis for twelve consecutive months. Transactions already approved by the Company in accordance with the principle of accrued basis shall not be included in the scope of accrual calculation.

Provisions of regulatory authorities that the Company is subject to within and outside the PRC that are of a stricter standard than these Articles of Association shall apply accordingly.

In addition to obligations imposed by laws, administrative regulations or the listing rules of the stock exchanges on which our Shares are listed, the Articles of Association place on each Director, supervisor, general manager, deputy general manager and any other senior officer the following duties to each shareholder, in the exercise of his or her functions and powers:

- to act honestly in our best interests;
- not to expropriate our property in any way, including (without limitation) usurpation of opportunities which benefit us; and
- not to expropriate the individual rights of shareholders, including (without limitation) rights to distributions and voting rights, save and except pursuant to our restructuring which has been submitted to the shareholders for their approval in accordance with the Articles of Association.

The Articles of Association further place on each Director, supervisor, general manager, deputy general manager and senior officer:

- a duty to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances in the discharge of his or her duties;
- a fiduciary obligation not to have interests that conflict with the Company's;
- a duty not to direct a person or entity related or connected to the Director, supervisor, general manager, deputy general manager or senior officer in certain relationships enumerated in the Articles of Association to act in a manner which such person is prohibited from doing; and
- a duty not to cause us to exceed the scope of business stipulated in our business license.

The shareholders in a general meeting may by ordinary resolution remove any Director or supervisor before the expiration of his or her term of office if such Director fails to perform any of the Director's duties. A senior officer of the Company may be removed by the Board if he or she fails to perform his or her duty.

### ***Directors' Decision-making Risk Fund***

Upon approval by our shareholders at the 2004 annual shareholders' general meeting, we established a Directors' Decision making Risk Fund ("Risk Fund") to compensate our Directors, supervisors, executive officers and other applicable personnel for personal economic losses resulting from their performance of duties in accordance with the laws, regulations or our Articles of Association or while attempting to procure legitimate benefits for our Company.

### ***Directors, Supervisors and Management's Indemnification***

Upon approval at the 2014 general meeting that was held on May 22, 2015, we continued to purchase liability insurance for our Directors, supervisors and senior officers with coverage of up to US\$15 million.

### ***Audit Committee of the Board of Directors***

Upon approval at the first meeting of the sixth session of the Board of Directors held on May 14, 2014, the Company set up our audit committee of the sixth session of the Board of Directors. The audit committee is mainly responsible for proposing the appointment or replacement of independent auditors; reviewing the accounting policies of the Company, the disclosure of the financial information and the procedures for preparing financial reports; and reviewing the Company's internal control and risk management systems. The audit committee comprises four independent non-executive Directors, namely Mr. JIA Shaohua, Mr. WANG Lijie, Mr. WANG Xiaojun, Mr. XUE Youzhi, and one employee Director, Mr. JIANG Qingquan. Mr. JIA Shaohua serves as the chairman of the audit committee.

The details of the responsibilities of the audit committee can be found on our Company's website. We also filed the responsibilities of the audit committee with the SSE, the Hong Kong Stock Exchange and the SEC.

The members of the audit committee of our Board of Directors are:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Ownership of Shares</b>
JIA Shaohua	65	Independent non-executive Director, chairman of the audit committee	—
WANG Lijie	63	Independent non-executive Director	—
WANG Xiaojun	61	Independent non-executive Director	—
XUE Youzhi	51	Independent non-executive Director	—
JIANG Qingquan	52	Employee Director	10,000

In 2015 and up to March 31, 2016, the audit committee held four meetings: on March 23, 2015, August 21, 2015, November 27, 2015 and January 12, 2016.

As a foreign private issuer, we rely on the exemption under Section 303A.00 of the NYSE Listed Company Manual as well as affiliated director and employee director exemptions as provided under Rule 10A-3 of the Exchange Act to be in compliance with the audit committee standards set out in Section 303A.06 of the NYSE Listed Company Manual. See "Item 16D. Exemptions from the Listing Standards For Audit Committees."

### ***Remuneration Committee***

The remuneration committee of the sixth session of the Board of Directors was set up following approval from the Board of Directors at the first meeting of the sixth session of the Board of Directors held on May 14, 2015. The primary duties of our remuneration committee as set out in the committee charter include formulating a compensation plan for our directors, supervisors, and the senior officers and making recommendations on the compensation for our directors, supervisors and senior officers. Further details on the responsibilities of the remuneration committee can be found on our website. We also filed the responsibilities of the compensation committee with the SSE, the Hong Kong Stock Exchange and the SEC.

The remuneration committee is comprised of three members: two independent non-executive Directors, namely Mr. XUE Youzhi and Mr. WANG Xiaojun, and one employee Director, namely Mr. JIANG Qingquan. Mr. XUE Youzhi was elected to serve as the chairman of the remuneration committee.

The remuneration committee convened two meeting in 2015 and up to March 31, 2016. The meeting of the remuneration committee was held on March 20, 2015 and March 29, 2016.



### ***Nomination Committee***

Pursuant to approval granted at the first meeting of the sixth session of the Board of Directors held on May 14, 2014, we established the nomination committee of the sixth session of the Board of Directors. The main duties of the nomination committee include (i) making recommendations to the Board on the structure, the number of Directors and the composition of the Board based on our operation, asset scale and share structure and diversifying composition of the Board based on our business model and specific requirements; (ii) considering and formulating the selection criteria and procedures for directors and managers and making recommendations; (iii) extensively searching for suitable candidates of directors and managers for the Company and making recommendations to the Board of Directors; (iv) reviewing the candidates for directors and managers for recommendation to the Board of Directors regarding proposed appointments and succession of directors and managers for recommendation to the Board of Directors; and (v) assessing the independence of independent non-executive Directors. Further details on the responsibilities of the nomination committee can be found on our website. We also filed the responsibilities of the nomination committee with the SSE, the Hong Kong Stock Exchange and the SEC.

The nomination committee is comprised of three Directors, namely Mr. WANG Xiaojun and Mr. WANG Lijie and Mr. LI Xiyong. Mr. WANG Xiaojun serves as the chairman of the nomination committee.

In 2015 and up to March 31, 2016, the nomination committee held two meetings on January 3, 2016 and March 29, 2016.

### ***Strategy and Development Committee***

Pursuant to approval granted at the first meeting of the sixth session of the Board of Directors held on May 14, 2015, we established the strategy and development committee of the sixth session of the Board. The main duties of the strategy and development committee include: (i) conducting studies and making proposals regarding the long-term development strategy and significant investment decisions of the Company; (ii) conducting studies and making proposals regarding the annual strategic development and operating plans; (iii) supervising the implementation of the Company's strategic and operating plans; and (iv) conducting studies and making proposals regarding other significant issues impacting the development of the Company. The strategy and development committee consists of five Directors, namely Mr. LI Xiyong, Mr. YIN Mingde and Mr. XUE Youzhi. Mr. LI Xiyong serves as the chairman of the strategy and development committee.

The members of strategy and development committee attended a meeting of the strategy and development committee held on November 12, 2015. The resolutions formed in the meeting were as follows:

- reviewed and revised the development plan for the “Thirteenth Five-Year Plan”(from 2016 to 2020); and
- reviewed the plan of production and operation and the plan of capital expenditure of the Company for 2016 and agreed to submit it to the Board for approval.

### ***Supervisory Committee***

Supervisors serve a term of three years and attend board meetings. The Supervisory Committee is accountable to shareholders and exercises the following duties in accordance with the applicable laws:

- reviewing our periodic reports as prepared by the Board of Directors and providing written comments;
- reviewing our financial position;
- supervising the directors and senior officers and proposing a removal of a director or a senior officer who has contravened any law, administrative regulation, our Articles of Association or resolutions passed at a shareholders' general meeting;
- demanding any director or any senior officer who acts in a manner which is harmful to our interest to rectify such behavior;
- verifying financial information such as financial reports, business reports and profit distribution plans to be submitted by the Board of Directors to Shareholders' general meetings and authorizing, in the Company's name, publicly certified and practicing accountants to assist in the reexamination of such information should any doubt arise in respect thereof;
- proposing the convening of Shareholders' extraordinary general meetings and extraordinary board meetings. Where the board of directors fails to convene or hold the general meeting of shareholders in accordance with the provisions of the Company Law of the PRC, convening and conducting the shareholders' general meeting;
- making proposals at the Shareholders' general meetings;

- representing the Company in proceedings against a director or senior officers in accordance with relevant sections of the Company Law of the PRC;
- conducting investigations of any identified irregularities in the Company’s operations; and
- performing other functions and powers specified in our Articles of Association.

Our Supervisory Committee currently consists of six members, namely Mr. ZHANG Shengdong, Mr. GU Shisheng, Mr. GUO Jun, Mr. CHEN Zhongyi and Ms. ZHEN Ailan. As approved by the first meeting of the sixth session of the Supervisory Committee of the Company on July 1, 2015, Mr. ZHANG Shengdong and Mr. GU Shisheng were elected as chairman and vice chairman of the Supervisory Committee of the Company, respectively.

### ***Corporate Governance***

As of December 31, 2015, the Yankuang Group and its wholly owned subsidiary directly held 2.78 billion Shares, representing 56.59% of our total shares as of the same date. As the Yankuang Group directly holds more than 50% of our voting power, we are a “controlled company” under Section 303A.00 of the NYSE Listed Company Manual. As a result, we are not required to establish a Nomination Committee or Corporate Governance Committee under Sections 303A.04 and 303A.05 of the NYSE listing rules. Although we have established a Nomination Committee, we have not established a Corporate Governance Committee. For details related to our corporate governance, please refer to “Item 16G — Corporate Governance”.

### ***Arrangement to Purchase Equity or Debt Securities and Other Arrangements***

At no time during the year ended December 31, 2015 were we, our Controlling Shareholder or any of the Yankuang Group’s subsidiaries a party to any arrangement that enabled our Directors or supervisors to acquire benefits through the acquisition of any securities, including our equity or debt securities, with the exception of the A Shares issued to certain of our Directors, supervisors and senior management.

There is no arrangement or understanding between any Director and any major shareholder, customer or supplier in connection with the selection of such Director.

### ***Service Contracts of Directors and Supervisors***

Each of our Directors and supervisors has entered into a service contract with us. Under those contracts, the salaries and discretionary year-end bonuses paid to the Directors and supervisors, are proposed by the Board of Directors and approved by our shareholders at general meetings. The discretionary year-end bonuses paid to our Directors and other employees (including, but not limited to, our supervisors and senior officers) in any given year may not, in aggregate, exceed 1% of our net profit (after taxation and extraordinary losses, but before extraordinary gains) for that year.

No Director or supervisor has entered into any service contract with our Company which cannot be terminated by us within one year without payment other than statutorily mandated payments.

## **D. Employees**

### ***General***

The table below sets forth the number of our employees by function as of the dates indicated:

	<b>As of December 31,</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
Coal production employees	45,262	42,396	40,967
Engineers and technicians	4,911	4,494	4,342
Management and administrative personnel	5,976	5,360	5,178
Support staff	16,897	15,943	15,407
<b>Total</b>	<b>73,046</b>	<b>68,193</b>	<b>65,894</b>

The table below sets forth a breakdown of our employees by location as of December 31, 2015:

<u>Location</u>	<u>Employees</u>	<u>% of Total</u>
<b>PRC</b>		
Shandong	56,365	85.54%
Shanxi	868	1.32%
Shaanxi	1,471	2.23%
Inner Mongolia	5,279	8.01%
<b>Australia</b>	1,901	2.88%
<b>Canada</b>	10	0.02%
<b>Total</b>	<u>65,894</u>	<u>100%</u>

As of the date of this annual report, all of our employees are employed under employment contracts which specify the employee's position, responsibilities, remuneration and permissible grounds for termination. We have a labor union that protects employees' rights, aims to assist in the achievement of our economic objectives, encourages employee participation in management decisions and assists in mediating disputes between union members and us. Each of our operating units has a labor union. We have not experienced any strikes or other labor disturbances that have interfered with our operations, and we believe that we maintain strong relationships with our employees.

### ***Domestic Employees***

The total remuneration of our domestic employees includes wages and allowances. The compensation of a domestic employee directly involved in underground mining is based on the employee's productivity, as well as the productivity of the employee's mining team. Our domestic employees and their families also receive certain social welfare benefits and logistics services indirectly through the Yankuang Group. These benefits are provided in some cases by the Yankuang Group as required by PRC laws, rules and regulations. We, in turn, pay the Yankuang Group for such benefits.

According to the Provision of Insurance Fund Administrative Services Agreement and the annual caps from 2015 to 2017, the Yankuang Group will provide free management services for the contributions that we make to an endowment insurance fund, basic medical insurance fund, supplementary medical insurance fund, unemployment insurance fund and maternity insurance fund for our employees. We paid an aggregate of approximately RMB1,149.3 million to the above listed insurance funds in 2015.

Each of our domestic employees, including our directors, supervisors, executive officers and senior management currently pays a percentage of his or her salary as an additional pension contribution. Upon retirement, our domestic employees are entitled to pension payments under the pension plan. In 2013 and 2014, we paid pension contributions for our directors, supervisors, executive officers and senior management of approximately RMB1,020,000 and RMB1,773,000, respectively. In 2015, we paid pension contributions for current directors, supervisors and senior management for approximately RMB1,269,000.

All domestic employees who are unable to work due to illness or disability are entitled to certain benefits during the period of their absence from work. In addition, the PRC government requires us to provide casualty and life insurance for each domestic employee who works underground in mining sites through work injury funds. We contribute an amount to the work injury fund equivalent to 2% of each employee's total remuneration the prior year.

### ***Medical insurance plan***

In accordance with the relevant regulations of the Shandong Provincial Government, since 2002, we have established a basic medical insurance plan for domestic employees, which comprises basic medical insurance and supplementary medical insurance plans.

We set aside 7% and 2% of the total wages of each employee to a basic medical insurance fund and supplementary medical insurance, respectively. Production personnel's supplementary medical insurance was recorded in our statement of income as "Wages and Employee Benefits" under "Cost of Sale and Service Provided," while management and administrative personnel's supplementary medical insurance was recorded under "Selling, General and Administrative Expenses."

### ***Housing plan***

Under the Labor and Service Supply Agreement, the Yankuang Group is partly responsible for providing housing accommodations to our domestic employees. We and the Yankuang Group share the incidental expenses relating to the provision of housing accommodation on a pro rata basis based upon our respective number of employees and other negotiations. Such expenses amounted to approximately RMB80.0 million, RMB137.2 million and RMB137.2 million for 2013, 2014 and 2015, respectively.

Since 2002, we have paid each of our domestic employees a housing allowance, which is calculated based on a fixed percentage of each domestic employee's wage, to assist domestic employees in their purchase of residential housing. In 2013, 2014 and 2015, we paid an aggregate of approximately RMB478.6 million, RMB486.1 million and RMB530.4 million, respectively, for our domestic employees' housing allowances.

### *Australian Employees*

Pursuant to applicable Australian laws and regulations, we provide our Australian employees a base salary and also make contributions to our Australian employees' benefits fund. Upon retirement, our Australian employees are entitled to receive payments from the benefits fund. In addition, we maintain commercial medical insurance policies for our Australian employees to cover their medical and additional expenses.

### **E. Share Ownership**

No Director, supervisor or member of senior management owns more than 1% of our outstanding shares. We have not entered into any arrangement that enables any of our Directors, supervisors or other executive officers to purchase securities issued by us or other institutions. See "Item 6. Directors, Supervisors, Senior Management and Employees — A. Directors, Supervisors and Senior Management".

We have not had and have no plan to grant options for our Shares or other equity-linked securities to our employees. We have not had and have no plan to implement any share bonus scheme for employees.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **A. Major Shareholders**

As of December 31, 2015, the Yankuang Group and its wholly owned subsidiary owned 2.78 billion shares of the Company, representing 56.59% of our share capital. As a majority shareholder, the Yankuang Group is able to make most of the decisions reserved for shareholders.

The following table sets forth certain information regarding ownership of our capital stock as of December 31, 2015 by all persons who are known by us to own beneficially more than 5% of our capital stock.

<u>Shareholder</u>	<u>Shares Owned</u>	<u>Percentage (%)</u>
Yankuang Group <sup>(1)(2)</sup>	2,600,000,000	52.93 <sup>(5)</sup>
HKSCC Nominee Limited <sup>(3)(4)</sup>	1,944,729,899	39.59 <sup>(5)</sup>

(1) Ordinary Shares in the form of legal person shares.

(2) Yankuang Group is 70% held by SASAC of the Shandong Provincial Government.

(3) Ordinary Shares in the form of H Shares.

(4) As the nominee of the clearing and settlement agent for our H Shares, HKSCC Nominee Limited is the record holder of our H Shares.

(5) Calculated based on total 1,952,016,000 shares of H Shares and 4,912,016,000 shares of total share capital after deducting the H Shares repurchased in December 2015

The following table sets forth the substantial shareholders' interests and short positions in our shares as of December 31, 2015.

Name of substantial shareholders	Class of shares	Capacity	Number of shares held (shares)	Nature of interest	Percentage in the H Share capital of the Company	Percentage in total share capital of the Company
Yankuang Group <sup>(1)</sup>	H share	Interest of controlled corporations	180,000,000	Long positions	9.22%	3.66%
BlackRock, Inc.	H share	Interest of controlled corporations	99,372,785	Long positions	5.09%	2.02%
			1,341,370	Short positions	0.07%	0.03%
Templeton Asset Management Ltd.	H share	Investment manager	233,066,800	Long positions	11.94%	4.74%
JP Morgan Chase & Co.	H share	Beneficial owner	58,677,059	Long positions	3.00%	1.19%
		Investment manager	9,024,903	Short positions	0.46%	0.18%
		Investment manager	2,000	Long positions	0.00%	0.00%
		Custodian corporation/ approved lending agent	39,425,000	Long positions	2.02%	0.80%
BNP Paribas Investment Partners SA	H share	Investment manager	117,641,207	Long positions	6.03%	2.39%
Morgan Stanley	H share	Interest of controlled corporations	110,553,901	Long positions	5.66%	2.25%
			103,465,083	Short positions	5.30%	2.10%

- (1) Yankuang Group's wholly-owned subsidiary incorporated in Hong Kong holds such H shares in the capacity of beneficial owner.
- (2) The percentage figures above have been rounded off to the nearest second decimal place.
- (3) Information disclosed hereby is based on the information available on the website of Hong Kong Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk).

Except as described in the table above, we are not aware of any holder of more than 5% of any class of our shares. Our major shareholders do not have voting rights different from those of other shareholders. All of our ordinary shareholders enjoy equal voting rights for each share that they hold.

To our knowledge, other than the Yankuang Group, which directly and indirectly owned 56.59% of our shares as of December 31, 2015, we are not owned or controlled, directly or indirectly, by any other corporation, government, or other natural or legal person or persons, jointly or severally. We are not aware of any arrangement which may at a subsequent date result in a change of control over us.

## B. Related Party Transactions

Our connected transactions (as defined under the Hong Kong Listing Rules) were mainly made with the Controlling Shareholder (including its subsidiaries) for the provision of materials and services, giving rise to the continuing connected transactions (as defined under the Hong Kong Listing Rules) described below, and asset purchase transactions.

### *Continuing Connected Transactions*

At the 2014 second extraordinary general meeting of the Company held on December 12, 2014, five continuing connected/related transaction agreements, namely, the "Provision of Material Supply Agreement", "Mutual Provision of Labor and Services Agreement", "Provision of Insurance Fund Administrative Services Agreement", "Provision of Products, Materials and Equipment Leasing Agreement" and "Provision of Electricity and Heat Agreement", together with the annual caps for such transactions for the years of 2015 to 2017 had been approved. The main ways to determine transaction price include: state price; market price is applied when the state price is not available; actual cost pricing is applied when neither state price nor market price is available. The charge for transaction can be settled in one lump sum or by instalments. The continuing connected/related transactions made in a calendar month shall be settled in the following month, except for incomplete transactions or where the transaction amounts are in dispute.

At the seventh meeting of the sixth session of the Board held on March 27, 2015, the Company considered and approved: (i) "Financial Services Agreement" which was signed with Yankuang Finance Company Limited and the annual cap for such transaction for the period from April 1, 2015 to March 31, 2016, applying state-prescribed price as the main way of pricing; (ii) "Coal Train Escort Services Agreement" which was signed with Shandong Yankuang Security Service Co., Ltd. ("Yankuang Security Service") and the annual cap for such transaction for the period from February 1, 2015 to March 31, 2016, applying reasonable cost plus reasonable profits as the main ways to determine transaction price.

At the twelfth meeting of the sixth session of the Board held on October 26, 2015, the Company considered and approved the “Investment Consulting Contract” and the “Investment Consulting Contract Supplementary Agreement” which was signed with Shangqi Capital Management Co., Ltd. and the annual cap for such transaction for the period from November 1, 2015 to October 31, 2016, applying state-prescribed price as the main way of pricing.

The continuing connected transactions between our Company and the Controlling Shareholder for 2014 and 2015 included the following:

#### Continuing Connected Transaction of Supply of Materials and Services

The following table sets forth the amounts of goods and services sold and purchased between our Company and Yankuang Group pursuant to the “Provision of Material Supply Agreement”, “Mutual Provision of Labor and Services Agreement” and “Provision of Electricity and Heat Agreement” for 2014 and 2015.

	For the Year Ended December 31,			
	2014		2015	
	Amount (RMB'000)	% of operating income	Amount (RMB'000)	% of operating income
Sales of goods and rendering of services by the Group to the Controlling Shareholder	3,044,394	4.66	1,635,188	2.37
Sales of goods and rendering of services by the Controlling Shareholder to the Group	2,997,963	4.59	1,734,187	2.51

*Note:* The listed figures are under CASs.

The table below shows the effect on profits from sales of coal by the Group to the Controlling Shareholder in 2015:

	Sales income (RMB'000)	Operation cost (RMB'000)	Gross profit (RMB'000)
Coal sold to the Controlling Shareholder	1,092,512	680,526	411,986

*Note:* The listed figures are under CASs.

#### Continuing Connected Transaction of Insurance Fund

Pursuant to the “Provision of Insurance Fund Administrative Services Agreement”, the Controlling Shareholder shall provide free management and handling services for the Group’s endowment insurance fund, basic medical insurance fund, supplementary medical insurance fund, unemployment insurance fund and maternity insurance fund (the “Insurance Fund”). The actual amount of the Insurance Fund paid by the Group for the year 2015 was RMB1.1193 billion.

#### Continuing Connected Transaction under the Financial Services Agreement

Pursuant to the “Financial Services Agreement”, as of December 31, 2015, the balance of deposit and loan of the Group in Yankuang Finance was RMB1.0244 billion and the outstanding loan was RMB234.6 million.

Details of the annual transaction cap for 2015 and the actual transaction amounts in 2015 for the above continuing connected transactions are shown in the following table.

#### Continuing Connected Transaction under Coal Train Escort Services

Pursuant to the Coal Train Escort Services Agreement, Yankuang Security Service Co., Ltd. provided coal train escort services to the Group. In 2015, the Group paid settlement service fees of RMB24.4 million to Yankuang Security Service Co., Ltd.

#### Continuing Connected Transaction under Entrusted Wealth Management Services

Pursuant to the Investment Consulting Agreement and its supplementary agreement, the Company invests RMB500 million as entrusted funds and engages Shangqi Capital to carry out low-risk hedge businesses such as spreads arbitrage, gold lease and basis trading arbitrage and other businesses such as agency delivery and cooperative hedging. In 2015, the Group didn’t pay service fees to Shangqi Capital as there is no relevant entrusted wealth management service.

Type of connected transaction	Agreement	Annual transaction cap for the year 2015 (RMB'000)	Value of transaction for the year 2015 (RMB'000)
Material and facilities provided by Yankuang Group	Provision of Materials Supply Agreement	1,387,000	157,202
Labor and services provided by Yankuang Group	Provision of Labor and Services Agreement	2,496,600	1,522,611
Pension fund management and payment services provided by Yankuang Group (free of charge) for the Group's staff	Provision of Insurance Fund Administrative Services Agreement	1,501,830	1,119,279
Sale of products, material and equipment lease provided to Yankuang Group	Provision of Products Material and Equipment Leasing Agreement	5,827,150	1,503,290
Power and heat provided to Yankuang Group	Provision of Electricity and Heat Agreement	142,600	118,486
Professional services including coal washing and processing services and operation of coal mines services provided to Yankuang Group	Provision of Specific Labor and Services Agreement	311,640	13,412 ( <i>note</i> )
Financial services provided by Yankuang Group	Provision for Financial Services Agreement		
– deposit balance		1,180,000	1,024,379
– comprehensive credit facility services		400,000	234,562
– settlement services fees		14,000	—
Train escort services provided by Yankuang Group	Coal Train Escort Service Agreement	36,000	24,378
Entrusted wealth management services provided by Yankuang Group			
- Total amount of entrusted wealth	Investment Consulting Agreement and its supplementary agreement	500,000	—
- Service fee		31,250	—

Note:

The amount of related/connected transactions in relation to the professional services provided by the Group to the controlled shareholder was RMB13.412 million in 2015, of which, Shengdi Fenlei Coal Preparation Engineering Technology (Tianjin) Co., Ltd. (“the company”) provides coal washing and processing services for the connected/ related parties of the Company with the connected/related amount of RMB6.730 million in 2015.

In accordance with applicable financial reporting standards, the company is not included in the consolidated financial statements. However, as the number of appointed directors by the Company was in the majority in the company's board of directors, in accordance with the applicable Hong Kong laws and regulations and the stock listing rules of the Shanghai Stock Exchange, the company was recognized as the subsidiary of the Company.

The table below sets forth the continuing connected transactions that we conducted with Yankuang Group or its subsidiaries during the periods indicated:

	Year Ended December 31,		
	2013 (RMB'000)	2014 (RMB'000)	2015 (RMB'000)
<b>Sales Income</b>			
Sales of coal	2,839,839	2,287,541	1,092,512
Sales of auxiliary materials	328,732	510,432	598,236
Sales of heat and electricity	111,675	114,163	118,486
Sales of methanol	126,398	127,921	29,668
Services of coal mines operation	—	4,337	—
<b>Total</b>	<b>3,406,644</b>	<b>3,044,394</b>	<b>1,838,902</b>
<b>Expenditure</b>			
Utilities and facilities	19,406	29,777	10,164
Purchases of supply materials and equipment	1,196,372	1,286,869	157,202
Repair and maintenance services	266,849	238,110	74,378
Social welfare and support services	483,783	822,793	755,004
Road transportation services	14,119	19,567	10,184
Construction services	522,314	600,847	709,262
Coal train convoy services	—	—	24,378
<b>Total</b>	<b>2,502,843</b>	<b>2,997,963</b>	<b>1,740,572</b>

### Opinions of the Independent Non-executive Directors

The Company's independent non-executive Directors have reviewed our continuing connected transactions with the Controlling Shareholder for the year 2015 and confirm that all such connected transactions have been: (i) entered into by us in our ordinary and usual course of business; (ii) conducted either on normal commercial terms, or where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to independent third parties; and (iii) entered into in accordance with the relevant governing agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole. The independent directors also confirmed that the transaction amount of each of the above continuing connected transactions did not exceed their respective annual caps for 2015 as approved by independent shareholders and the board of directors.

### Opinion of the Auditors

Pursuant to the Hong Kong Listing Rules, the Directors have engaged the Grant Thornton Hongkong to perform certain procedures required by the Hong Kong Listing Rules in respect of the continuing connected transactions of the Group. The Grant Thornton Hongkong have reported to the Directors that the above continuing connected transactions: (1) have received the approval of the Board; (2) are in accordance with the pricing policies of the Company; (3) have been entered into in accordance with the relevant agreement governing the transactions; and (4) have not exceeded the relevant annual caps.

### Amendments to Continuing Connected Transactions Agreements

#### 1. Entering into a new Coal Train Escort Services Agreement

As considered and approved at the sixteenth meeting of the sixth session of the Board held on February 17, 2016, the Company entered into a new Coal Train Escort Services Agreement which agreed the fee standard on escort services and continuing connected/related transactions of escort services provided to the Group by Yankuang Security Service Co., Ltd. Pursuant to the new Coal Train Escort Service Agreement, the annual caps for the train escort services fees in 2016 and 2017 should be RMB30 million and RMB31 million, respectively. For details, please refer to the announcement in relation to the resolution passed at the Board meeting dated February 17, 2016 and the announcement in relation to connected/related transactions. The above announcements were also posted on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange, the website of the Company and/or China Securities Journal and Shanghai Securities News.

#### 2. Entering into the Financial Services Agreement and the Supplementary Agreement

As discussed and considered at the seventeenth meeting of the sixth session of the Board held on March 29, 2016, the Company proposed to acquire 65% equity interests of Yankuang Group Finance Co., Ltd. held by Yankuang Group for a consideration of RMB1.242 billion and enter into the new Financial Services Agreement which agreed on the connected transactions including deposit, loan, settlement service, etc. provided by Yankuang Group Finance Co., Ltd. to Yankuang Group. The above-mentioned items are required to be reviewed and approved by shareholders' meeting. Meanwhile, the Company approved to amend the Financial Services Agreement signed with Yankuang Group Finance Co., Ltd. in March 27, 2015 (the former "Financial Services Agreement") and enter into the Supplementary Agreement which agreed on the relevant arrangement for the period from the maturity date of the former "Financial Services Agreement" to the acquisition date of Yankuang Group Finance Co., Ltd.



### ***Debt and Debt Obligations Between the Controlling Shareholder and Our Company***

The table below sets forth our balances due from/to the Controlling Shareholder.

<b>Related Parties</b>	<b>Receivable from related parties</b>			<b>Payable to related parties</b>		
	<b>Balance at the beginning</b> (RMB '000)	<b>Amount occurred</b>	<b>Closing balance</b>	<b>Balance at the beginning</b>	<b>Amount occurred</b>	<b>Closing balance</b>
Yanguang Group	1,457,183	5,709,390	1,650,433	1,565,289	3,134,833	1,855,502

### ***Amounts due to the Controlling Shareholder and Its Subsidiaries***

For the details of the amounts due to the Controlling Shareholder and its subsidiaries, please refer to “Item 5 — Operating and Financial Review and Prospects — F. Contractual Obligations — Amounts due to the Controlling Shareholder and Its Subsidiaries.” As of December 31, 2015, the Controlling Shareholder or its subsidiaries had not used our funds for non operational matters.

### ***Transactions / Balances with Other State-owned Entities in the PRC***

We operate in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government (“state-owned entities”). In addition, our Controlling Shareholder is also a state-owned entity. Apart from the transactions with the Controlling Shareholder and its subsidiaries and other disclosure disclosed above, we also conduct business with other state-owned entities. Our Directors consider those state-owned entities as independent third parties so far as our business transactions with them are concerned.

Material transactions with other state-owned entities are as follows:

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b> (RMB'000)
Trade sales	5,986,611	4,518,295	1,432,740
Trade purchases	5,078,834	1,357,757	2,440,592

Material balances with other state-owned entities are as follows:

	<b>As of December 31,</b>	
	<b>2014</b>	<b>2015</b> (RMB'000)
Amounts due from other state-owned entities	440,387	226,494
Amounts due to other state-owned entities	201,797	254,425

In addition, we have entered into various transactions, including deposit placements, borrowings and other general banking facilities, with certain banks and financial institutions that are state-owned entities in the ordinary course of business. In view of the nature of those banking transactions, our Directors are of the opinion that separate disclosures are not be necessary.

Except as disclosed above, our Directors are of the opinion that all transactions with other state-owned entities are not significant to our operations.

### ***Interest of Management in Certain Transactions***

None of the Directors or supervisors or executive officers had, either directly or indirectly, any material interest in any significant material contract to which we were a party during the year ended December 31, 2015.

### **C. Interests of Experts and Counsel**

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### A. Consolidated Statements and Other Financial Information

#### *Financial Statements*

You should read “Item 18. Financial Statements” for information regarding our audited consolidated financial statements and other financial information.

#### *Significant Legal Proceedings and Arbitration*

##### **The Dispute Arbitration in relation to the Performance of the Contract Execution between Shanxi Nenghua and Shanxi Jinhui Coke Chemical Co., Ltd.**

In February 2005, Shanxi Nenghua entered into an asset swap contract and a material supply contract with Shanxi Jinhui Coke Chemical Co., Ltd. (“Shanxi Jinhui”), according to which, Shanxi Jinhui shall compensate Tianhao Chemical, the subsidiary of Shanxi Nenghua, its actual losses if Shanxi Jinhui fail to provide the land for lease, gas, water, electricity supply and rail transportation for the establishment and production of Tianhao Chemical. In addition, Shanxi Jinhui shall compensate Shanxi Nenghua not less than its total investment in Tianhao Chemical as well as the interest on bank loans over the same period, if Tianhao Chemical is unable to operate continually caused by Shanxi Jinhui’s default.

Shanxi Jinhui failed to fulfill its contractual obligations to provide gas, coarse coal and land supply and unilaterally suspended the gas supply. As a result, Tianhao Chemical was unable to operate continually and subsequently ceased production of methanol in April 2012. In September 2013, Shanxi Nenghua submitted the arbitration application to the Beijing Arbitration Commission for a total compensation of RMB 798.8 million in accordance with the contracts. Beijing Arbitration Commission performed hearing procedures after accepting this arbitration and didn’t form the arbitration tribunal.

According to the hearing progress, in order to fully protect the interests of the Company, Shanxi Neng Hua applied to Beijing Arbitration Commission for withdrawal of the request for arbitration in August 2015 and received Beijing Arbitration Commission’s reply granting withdrawal of the Arbitration. As of the date of this annual report, we are further studying the plan of dispute resolution. So the Company is unable to accurately estimate the impact, if any, of the litigation on the current profit and future profit.

##### **Litigation on Coal Sales Contract between Zhongxin Daxie Fuel Co., Ltd. and the Company**

Zhongxin Daxie Fuel Co., Ltd. (“Zhongxin Daxie”), as the plaintiff, brought a civil litigation against the Company, as the defendant, at the Shandong Provincial Higher People’s Court in September 2013, alleging a failure by the Company to perform its delivery obligations under a coal sales contract between the parties. Zhongxin Daxie sued for the termination of the coal sales contract, return of payments for goods and damage in an amount of RMB163.6 million.

The Company has delivered goods to the third party designated by Zhongxin Daxie after the execution of the contract and Zhongxin Daxie has settled the payment with the Company. All the obligations have been fulfilled under the contract.

In April 2014, the Company received the Paper of Civil Judgment from the Shandong Provincial Higher People’s Court. The Shandong Provincial Higher People’s Court at first instance that decided to reject Zhongxin Daxie’s appeal and borne the litigation fee of RMB860,200.

On June 30, 2014, the Company received the Notice of the Decision on Appeal from the Supreme People’s Court of the People’s Republic of China (the “Supreme Court”), the Supreme Court has decided to accept Zhongxin Daxie’s appeal of judgment of the first instance of the litigation.

In January 2016, the Company received the Paper of Civil Judgment from the Supreme Court. It was the judgment of the Supreme Court at second instance that: Zhongxin Daxie’s appeal was rejected and the first instance judgment was upheld. Litigation fee of the first instance shall be enforced in accordance with the original judgment and litigation fee of the second instance of RMB0.8602 million shall be borne by Zhongxin Daxie. The judgment is final.

The Litigation has been awarded with final judgment by the Supreme Court. The Company is not liable in the Litigation. The Litigation does not have any impact on the current and future profit of the Company.

##### **The bills dispute between Jinan Branch of China Minsheng Banking Corp. Ltd. (“Minsheng Bank”) and Yanzhou Coal**

From May to August 2015, the Company has received four pleadings from Minsheng Bank, who brought a civil litigation against the Company at the Court.

1. Minsheng Bank, as the plaintiff, brought a civil litigation against the Company, Shandong Dongda Energy Co., Ltd., Xintai Hanzhuang Trade Co., Ltd. and the natural persons: Wang Zhandong and Gong Zhaojing, as the defendant, at the Jinan Municipal Intermediate People's Court on 5 May 2015, alleging a breach of Bills Discounted Agreement by the Company. Minsheng Bank sued Yanzhou Coal to undertake settlement liability amounting RMB50 million and other defendants to undertake the joint settlement liability. It was the judgement of Jinan Municipal Intermediate People's Court at the first instance that dated January 12, 2016: the Company should pay RMB50 million and corresponding interests stipulated in the Bills Discounted Agreement.
2. Minsheng Bank, as the plaintiff, brought a civil litigation against the Company, Shandong Dongda Energy Co., Ltd., Xintai Hanzhuang Trade Co., Ltd. and the natural persons: Wang Zhandong and Gong Zhaojing, as the defendant, at the Jinan Municipal Intermediate People's Court on May 5, 2015, alleging a breach of bills discounted agreement by the Company. Minsheng Bank sued Yanzhou Coal to undertake settlement liability amounting RMB49.9998 million and other defendants to undertake the joint settlement liability. It was the judgement of Jinan Municipal Intermediate People's Court at the first instance dated January 12, 2016 that: the Company should pay RMB49.9998 million and corresponding interests stipulated in the Bills Discounted Agreement.
3. Minsheng Bank, as the plaintiff, brought a civil litigation against the Company, as the defendant, at the Jinan Municipal Intermediate People's Court on July 13, 2015, alleging a breach of bills discounted agreement by the Company. Minsheng Bank sued Yanzhou Coal to undertake settlement liability amounting RMB29.439 million. It was the judgement of Jinan Municipal Intermediate People's Court at the first instance dated January 11, 2016 that: the Company should pay RMB29.439 million and corresponding interests stipulated in the Bills Discounted Agreement.
4. Minsheng Bank, as the plaintiff, brought a civil litigation against the Company, as the defendant, at the Jinan Municipal Intermediate People's Court on June 24, 2015, alleging a breach of bills discounted agreement by the Company. Minsheng Bank sued Yanzhou Coal to undertake settlement liability for bill of exchange's principal amounting RMB20 million. The case is in performance of the first trial proceedings and hearing has not been implemented.

The Company believes that the Minsheng Bank has implemented rediscounting to related bills and payment of rediscounting has been collected; bill rediscounting agree signed by parties has been fulfilled and the rights and obligations of both parties based on the agreement has come to an end. Minsheng Bank has no rights to appeal Yanzhou Coal Mining Co., Ltd. according to the agreement. Therefore the factual basis has been recognized inadequate through the first-instance judgment. Based on the above facts, in accordance with the above-mentioned case of first instance, the Company has appealed to Shandong Provincial higher people's court. Currently the relevant case is in the process of the second instance trial.

Due to the pending of above case, the Company is unable to accurately estimate the impact, if any, of the litigation on the current profit and future profit.

#### **Series of disputes on Shandong Hengfeng PowerFuel Co., Ltd. ("Hengfeng company")**

1. Financial loan contract dispute of Agricultural Bank of China Co., LTD. Jining High-Tech Zone Branch (the "Agricultural Bank")  
On July 14, 2015, citing the financial loan contract dispute, Agricultural Bank appealed Hengfeng Company, Chai Tao, Yang Peng, Shandong Jining Zhengxing Supplies Co., Ltd., Xiamen Jiana Co., Ltd. and the Company's wholly owned subsidiary-Shandong Zhongyin Logistics and Trade Co., Ltd. (Zhongyin Logistics) to Jining Intermediate People's Court, requiring Hengfeng Company to repay RMB31.4398 million of bank acceptance bill and interest, and other defendants to bear several and joint liabilities. Because Hengfeng Company made a pledge to the plaintiff through its accounts receivables of RMB61.1696 to Zhongyin Logistics, the plaintiff asked Zhongyin Logistics to perform payment obligations within scope of accounts payable.
2. Financial loan contract dispute of Weihai Commercial Bank Co., LTD. ("Weihai Commercial Bank")  
On September 11, 2015, citing the financial loan contract dispute, Weihai Commercial Bank appealed Hengfeng Company, Xiamen Jiana Co., Ltd., Nanjing Taigu Energy Co., Ltd., Nanjing China Coal Taigu Trade Co., Ltd., Jining Ningmei Industry and Trade Co., Ltd., and nature person Chai Tao and Di Yanfang to Jining Intermediate People's Court, requiring Hengfeng Company to pay RMB99.119 million and interest, and other defendants to bear several and joint liabilities. On October 9, 2015, Weihai Commercial Bank applied for additional defendant-Yanzhou Coal Company Co., Ltd. Because Hengfeng Company made a pledge to the plaintiff through its accounts receivables of RMB103.42 million to Yanzhou Coal Mining Co., Ltd., the plaintiff asked the Company to perform payment obligations within scope of accounts payable.
3. Financial loan contract dispute of China Construction Bank Co., LTD. Jining Dongcheng Branch ("Construction Bank")  
On November 3, 2015, citing the financial loan contract dispute, Construction Bank appealed Hengfeng Company, Yanzhou Coal Mining Co., Ltd., Xiamen Jiana Co., Ltd., Zhejiang Jiashun Energy Co., Ltd., Jining Ningmei Industry and Trade Co., Ltd., and nature person Chai Tao and Di Yanfang to Jining Intermediate People's Court, requiring Hengfeng Company to repay RMB59.669 million of financial loan. Because Hengfeng Company made a pledge to the plaintiff through its accounts receivables of RMB79.1312 million to Yanzhou Coal Mining Co., Ltd., the plaintiff asked the Company to perform payment obligations within scope of accounts payable.

#### 4. Factoring Contract Dispute of the Zhonghuixintong Business Factoring Company (“Zhonghuixintong”)

On November 26, 2015, citing the factoring contract dispute, Zhonghuixintong appealed Hengfeng Company and nature person Chai Tao and Di Yanfang to Beijing No.3 Intermediate People’s Court, requiring Hengfeng Company to repay RMB159.977 million of factoring financial loan, fees and interest; nature person Chai Tao and Di Yanfang to bear several and joint liabilities and Yanzhou Coal Mining Co., Ltd. as the third person. On January 25, 2016, Hengfeng Company applied for changes of litigation claim. Because Hengfeng Company transferred its receivables of RMB145 million in Yanzhou Coal Mining Co., Ltd. to Zhonghuixintong, Zhonghuixintong asked the Company to perform payment obligations within scope of accounts payable and interest.

In accordance with the investigation and verification of the Company, Yanzhou Coal Mining Co., Ltd. and Zhongyin Logistics never made any accounts receivable pledges. Through forging the seals and handing personnel’s signatures of Yanzhou Coal and Zhongyin Logistics, Hengfeng Company was suspected to fiction the enjoyments of the accounts receivables of Yanzhou Coal and Zhongyin Logistics, and finally Hengfeng Company made pledges of accounts receivable financing business in financial institutions. Yanzhou Coal has submitted identification applications of seals authenticity and personnel handwriting to the trial court; and relative identification is under way. Given the criminal offence suspects of Hengfeng Company, Yanzhou Coal has reported to public security organs while responding to the court. Due to the pending and appearance in the first instance of above case, the Company is unable to accurately estimate the impact, if any, of the litigation on the current profit and future profit.

#### **Sales contract dispute with Jinan Railway Coal Trade Group Co., LTD.**

On October 29, 2015, citing the sales contract dispute, Jinan Railway Coal Trade Group Co., LTD. (Jinan Railway Trade) appealed Yanzhou Coal to Jinan Railway Transportation Court, requiring Yanzhou Coal to repay RMB19.9498 million loan. Jinan Railway Trade claims, according to the tripartite agreement signed by the plaintiff, Jiangsu Dacheng Power Fuel Co., Ltd. (“Jiangsu Dacheng”) and Yanzhou Coal, Yanzhou Coal should bear joint compensation liabilities on losses to the plaintiff due to Jiangsu Dacheng’s failure to deliver the goods with a value of RMB19.9498 million and to repay RMB19.9498 million to the plaintiff.

According to the investigation and verification of the Company, the Company never signed sales contract involved in the case with Jinan Railway Trade, even never implemented any related business and fund activities with Jinan Railway Trade after signing date of related sales contract provided by Jinan Railway Trade. With disputer on reasons of appeal of Jinan Railway Trade, the Company is actively formulating action plan to maintain the legitimate rights and interests of the Company.

Due to the pending and appearance in the first instance of above case, the Company is unable to accurately estimate the impact of, if any, the litigation on the current profit and future profit.

#### ***Dividend Policy***

Pursuant to approval granted at the 2013 annual general meeting held on May 14, 2014, the Company amended the terms of the Articles of Association relating to profit distribution.

According to our Articles of Association, we shall maintain the continuance and stability of our profit distribution policy. Pursuant to our Articles of Association, our after-tax profit shall be allocated in the following order: (1) compensation of losses (if our statutory common reserve fund is not sufficient to compensate our losses from the previous year, we will utilize our after tax profit to compensate our losses before making any provision for the statutory common reserve fund) (2) allocation to the statutory common reserve fund; (3) allocation to the discretionary common reserve fund upon approval by a resolution of a shareholders’ general meeting; and (4) dividend payments for ordinary shares.

The calculation of profit after tax of our Company for an accounting year was based on the financial statements prepared in accordance with the CASs, IFRS or overseas accounting standard under which the shares were traded. We will choose the lowest profit after tax under the above accounting policies when paying the dividend. The dividends shall be paid in the form of cash, shares or a combination of cash and shares. In the event that conditions for distribution of cash dividend are met, cash dividend shall be distributed prior to share dividend. Final dividends shall be paid once a year. The shareholders shall by way of an ordinary resolution authorize the Board to declare and pay final dividends. We may distribute interim cash dividends upon obtaining approval from the board of directors and the shareholders at general meeting. There should at least be a six-month accounting period interval when we distribute cash dividends. On the premise of securing our Company’s sustainable development and provided that the Company has recorded a profit in a particular year and that its accumulated undistributed profit is positive, our cash dividends shall account for approximately 35% of our Company’s net profit after statutory reserve for that particular year, unless we have scheduled significant investments or significant cash requirements. On the premises that our operations are in good condition and that the Board considers the distribution of share dividends is beneficial to the overall interest of all shareholders of our Company due to a mismatch between our Company’s stock price and its scale of share capital and in other necessary circumstances, we may distribute dividends in the form of shares.

The 2014 annual general meeting of the Company held on 22 May 2015 approved the Company's dividend distribution plan, which allowed the Company to distribute 2014 cash dividends of RMB98.368 million (tax inclusive) to the shareholders, i.e., RMB0.02 per share (tax inclusive). As at the date of this annual report, the 2014 cash dividends have been distributed to the shareholders.

## B. Significant Changes

We have not experienced any significant changes since the date of the consolidated financial statements in this annual report.

## ITEM 9. THE OFFER AND LISTING

### A. Offer and Listing Details

The following tables set forth a summary of the issuance of our Shares:

	H Shares			A Shares	
	Initial offering	Second offering	Third offering	Initial offering	Second offering
Time of issuance	March 1998	May 2001	July 2004	June 1998	January 2001
Issue amount	850,000,000	170,000,000	204,000,000	80,000,000	100,000,000

As of December 31, 2015, our share capital structure was as follows:

Type	Number of shares	Percentage to total shares
<b>Listed shares with restricted trading condition</b>	170,500	0.0035%
A Shares held by our Directors, supervisors and executive officers	170,500	0.0035%
<b>Listed shares without trading moratorium</b>	4,911,845,500	99.9986%
A Shares	2,959,980,000	60.2600%
H Shares	1,958,400,000 <sup>(1)</sup>	39.8696%
<b>Total</b>	4,918,400,000 <sup>(1)</sup>	100.0000%

Note:

- (1) We repurchased total 6,384,000 H Shares in December 2015. After the repurchase, the total number of H Shares is 1,952,016,000 and the total number of the share capital is 4,912,016,000. As of December 31, 2015, the cancellation of the repurchased H paper shares have been completed in the Central Registration Hong Kong Limited, and we are in the process of update its registration with the relevant government authorities in the PRC.

As of December 31, 2015, we had 170,500 listed Shares that were subject to trading restrictions, all of which are held by our Directors, supervisors and executive officers.

### Capitalization of Capital Reserve and Our Capital Structure:

Our total Shares and shareholding structure remained the same in 2015.

The table below sets forth certain market information relating to the H Shares, ADSs and A Shares for the periods indicated:

	Price per H Share (HK\$)		Price per ADS (US\$)		Price per A Share (RMB)	
	High	Low	High	Low	High	Low
<b>Annual highs and lows</b>						
2010	25.25	14.00	32.26	18.29	33.65	14.88
2011	32.95	13.72	41.89	17.49	39.50	20.38
2012	20.15	9.92	25.81	12.64	26.54	15.08
2013	14.48	5.13	18.57	6.68	20.18	5.91
2014	7.29	4.91	9.31	6.32	14.00	5.91
2015	9.10	3.35	12.23	4.24	19.05	7.68
<b>Quarterly highs and lows</b>						
2012						
First quarter	20.15	15.72	25.81	20.56	26.54	20.61
Second quarter	17.48	11.60	22.32	14.68	25.66	18.38
Third quarter	13.78	9.92	17.57	12.64	19.76	16.91
Fourth quarter	13.16	11.00	17.11	14.16	19.30	15.08

	Price per H Share (HK\$)		Price per ADS (US\$)		Price per A Share (RMB)	
	High	Low	High	Low	High	Low
<b>2013</b>						
First quarter	14.48	10.32	18.57	9.23	20.18	14.47
Second quarter	10.56	5.46	13.77	7.05	17.25	9.01
Third quarter	8.37	5.13	10.74	6.68	11.59	8.76
Fourth quarter	8.74	7.04	11.26	9.08	11.56	8.66
<b>2014</b>						
First quarter	7.12	4.91	8.60	6.32	8.88	5.91
Second quarter	6.68	5.66	8.36	7.26	8.03	5.93
Third quarter	7.08	5.70	9.13	7.31	9.14	6.58
Fourth quarter	7.29	6.03	9.31	7.75	14.00	8.05
<b>2015</b>						
First quarter	7.07	6.08	9.04	7.76	15.62	12.32
Second quarter	9.10	6.09	12.23	7.75	19.05	12.81
Third quarter	5.93	3.39	7.69	4.28	13.04	7.68
Fourth quarter	4.31	3.35	5.48	4.24	10.70	8.68
<b>Monthly highs and lows</b>						
<b>2015</b>						
October	4.31	3.69	5.48	4.46	10.12	8.68
November	3.99	3.54	5.05	4.58	10.70	8.97
December	3.74	3.35	4.85	4.24	10.25	9.25
<b>2016</b>						
January	3.64	2.89	4.56	3.76	9.57	8.17
February	3.32	2.95	4.36	3.78	10.49	8.18
March	4.1	3.61	5.38	4.44	11.54	9.77
April (through April 10, 2016)	4.11	3.87	5.34	5.07	11.10	10.10

As of December 31, 2015, a total of 1,958.4 million H Shares were outstanding, of which approximately 51,675,330 H Shares or 2.6% of the outstanding H Shares, were held in the form of 5,167,533 ADSs. The outstanding ADSs were held collectively by 86 holders of record as of December 31, 2015.

### ***Repurchase, Sale or Redemption of H shares***

The shareholders at the 2015 first A shareholders' meeting and the 2015 first H shareholders' meeting, and the 2014 Annual General Meeting, each of which was held on May 22, 2014, resolved and granted the Board of Directors a general mandate to (i) repurchase H Shares up to 10% of the outstanding H Shares as of the date of the resolutions' passage; and (ii) issue additional H shares up to 20% of the outstanding H Shares as of the date of the resolutions' passage. During the mandate period, the Board of Directors may exercise the mandate based on our interests and market conditions, subject to the approvals of the relevant regulatory authorities and in compliance with laws, regulations and the Articles of Association. Based on this authorization, the Board exercise the general mandate and repurchase H shares on December 18, 21 and 22, 2015 of total 6,384,000 shares for a total consideration of HKD23.2 million (excluding commission fees). As of December 31, 2015, the cancellation of the repurchased H paper shares have been completed in the Central Registration Hong Kong Limited, and we are in the process of update its registration with the relevant government authorities in the PRC. The details of the repurchase are set out as follows:

<b>Repurchase Date</b>	<b>Number of shares repurchased (share)</b>	<b>Total payment (HKD)</b>	<b>Ceiling price (HKD/share)</b>	<b>Floor price (HKD/share)</b>
December 18, 2015	1,958,000	6,926,229.20	3.60	3.47
December 21, 2015	2,070,000	7,567,713.00	3.66	3.59
December 22, 2015	2,356,000	8,685,865.20	3.70	3.64
<b>Total</b>	<b>6,384,000</b>	<b>23,179,807.40</b>	<b>—</b>	<b>—</b>

**B. Plan of Distribution**

Not applicable.

**C. Markets**

Our A Shares are listed on the Shanghai Stock Exchange under the approval of the China Securities Regulatory Commission. The principal trading market for the H Shares is the Hong Kong Stock Exchange. The ADSs have been issued by The Bank of New York Mellon, acting as Depositary Bank, and are listed on the New York Stock Exchange under the symbol “YZC”. For market price information on the exchanges on which our securities are listed, see “– A. Offer and Listing Details”.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION****A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

Since the effective date of our Articles of Association, the PRC government and other regulatory authorities have promulgated various rules, regulations and opinions which include the Securities Laws of the PRC, the General Meeting Opinions, and the Guide for Articles of Association of Listed Companies. As a listed company, we are required to incorporate these rules, regulations and opinions into our Articles of Association as appropriate.

***Selected Summary of our Articles of Association***

A copy of the English translation of our Articles of Association was filed with the Commission as an exhibit to our registration statement on Form F-1 under the Securities Act in connection with the global offering of our H Shares and related American Depositary Shares in 1997. The following table sets forth the dates our Articles of Association were amended or filed with the Commission, or both:

<u>Date of Amendment to the Articles of Association</u>	<u>Filing</u>
April 22, 2002	Exhibit to 2001 20-F
June 25, 2004	Exhibit to 2003 20-F
July 8, 2004	Exhibit to 2004 20-F
June 28, 2005	Exhibit to 2005 20-F
August 22, 2005	
June 28, 2006	Exhibit to 2006 20-F
November 10, 2006	
June 15, 2007	Exhibit to 2007 20-F
January 30, 2008	Exhibit to 2008 20-F
December 23, 2008	
June 26, 2009	Exhibit to 2010 20-F
June 25, 2010	
February 18, 2011	
May 20, 2011	
April 23, 2012	Exhibit to 2012 20-F/A
May 15, 2013	Exhibit to 2013 20-F
May 14, 2014	Exhibit to 2014 20-F
May 22, 2015	Exhibit to 2015 20-F

## **Objects and Purposes**

We are a joint stock limited company established in accordance with the “Company Law”, “State Council’s Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Companies Limited by Share” and other relevant laws and administrative regulations of the State. We were established by way of promotion with the approval of the former State Commission for Restructuring the Economic System on September 24, 1997, as evidenced by approval document Ti Gai Sheng (1997) No. 154 of 1997. We were registered with and have obtained a business license from Shandong Provincial Administration Bureau of Industry and Commerce on September 25, 1997. Our business license number is: 370000400001016.

Our scope of business includes: selection and sale of coal (among others, the export of coal should be made through companies with coal export rights according to existing state regulations); transportation of goods through self-owned railways within the mining areas; transportation of goods through highways; operation of ports; manufacture, sale, lease and repair of relevant mining equipment; production and sale of other mining materials; sale and lease of electronic equipment and sale of parts; sale of metallic materials, electronic products, construction materials, timber, rubber products and methanol; provision of mining, science and technological services; property development within the mining areas, property leasing and provision of services such as dining and accommodation; production and sale of coal residual stones as construction materials; sale of coking coal and iron ore; import and export of goods and technology; warehousing; automotive repairs; labor dispatch; property management service, landscaping, sewage treatment; heat supply.

## **Board of Directors**

The Board of Directors is accountable to shareholders and exercises the powers granted to it by the Articles of Association.

Directors who are not employee representatives are elected or removed at shareholders’ general meetings. Employee directors are elected in staff representative meetings or by other democratic methods. All Directors are elected for a term of three years, which can be renewed by re-election at the expiry of the term, unless a Director is removed for cause during his term.

We have established a system of independent Directors and currently have four independent Directors. Independent Directors do not hold any positions in the Company other than their role as directors and do not maintain with us or our substantial shareholders a connection which may hamper their independent and objective judgment. In addition to the powers granted to Directors by the Company Law and other relevant laws, regulations and the Articles of Association, independent Directors have the following powers:

- (i) a majority of the independent Directors must agree to the engagement of substantial connected transactions, as determined in accordance with the standards promulgated from time to time by the regulatory organizations of the place where the Company’s shares are listed, and the appointment of accounting firm(s) before submitting such decisions to the Board of Directors;
- (ii) a majority of the independent Directors may call an extraordinary general meeting for the Board of Directors, propose a board meeting, and publicly collect proxy votes from shareholders before shareholders’ general meetings; and
- (iii) with the consent of a majority of the independent Directors, the independent Directors may independently engage external auditors and consultants to provide audit and consultation for specific Company matters, with the Company bearing the associated costs.

If the above recommendations are not accepted or the above powers cannot be exercised ordinarily, the Company shall disclose the circumstances accordingly.

Where a Director, supervisor or senior officer of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (other than his contract of service with the Company), he shall declare the nature and extent of his interests to the Board of Directors at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefore is otherwise subject to the approval of the board of directors. Unless the interested director, supervisor or senior officer discloses his interests in accordance with the preceding subparagraph of this Article and the contract, transaction or arrangement is approved by the board of directors at a meeting in which the interested director, supervisor or senior officer is not counted as part of the quorum and refrains from voting, a contract, transaction or arrangement in which that Director, supervisor or senior officer is materially interested is voidable at the instance of the Company except as against a bona fide party thereto who did not have notice of the breach of duty by the interested director, supervisor or senior officer.



Similarly, our Articles provide that when passing a resolution in relation to a connected transaction, or where any Director or any of its associates (as defined under the Listing Rules of the Stock Exchange of Hong Kong) is connected with such resolution, such connected director must recuse himself from the Board meeting, not have any voting rights in respect thereof, not exercise any voting right on behalf of other directors and not be counted as part of the quorum of the Board of Directors' meeting. Such board meeting can be convened where not less than half of the disinterested directors of the Company attend the meeting and any such resolutions shall be passed by at least half of the disinterested directors of the Company. If less than three non-connected Directors attend the Board of Directors' meeting, the connected transaction shall be submitted as a resolution at a shareholders' general meeting of the Company.

Pursuant to our Articles of Association, with the approval of over two-thirds of all Directors, the Board of Directors may exercise its borrowing powers subject to the following guidelines:

- (1) a single loan of more than 10% and less than 25% of the Company's latest audited net asset value so long as the debt ratio to the Company's assets remains under 80% after such financing; and
- (2) mortgages or pledges of assets the cumulative outstanding amount of which is less than 30% of the Company's latest audited net asset value.

Remuneration of Directors are determined by resolution of the shareholders. The Articles of Association do not impose a mandatory retirement age or share ownership qualification on Directors.

### **Description of the Shares and Shareholder Rights**

As of December 31, 2015, our share capital structure consists of 4,912,016,000 ordinary shares, comprising

- (1) 2,959,829,500 domestic shares, which represent 60.26% of our share capital, of which:
  - a. 2,959,829,500 shares, which represent 52.93% of our share capital, were directly held by the promoter, Yankuang Group Corporation Limited, and
  - b. 359,829,500 shares, which represent 7.33% of our share capital, were held by other shareholders; and
- (2) 1,952,016,000 foreign H shares, which represent 39.74% of our share capital, were held by the H Shares shareholders, among which:
  - a. 180,000,000 shares, which represent 3.66% of our share capital, were indirectly held by the promoter, Yankuang Group Corporation Limited through its wholly-owned subsidiary in Hong Kong, and
  - b. 1,772,016,000 shares, which represent 36.08% of our share capital, were held by other shareholders.

Holders of our ordinary Shares are entitled to share in the Company's profits, dividends and other distributions in proportion to the number of Shares held and are not liable for making any further contribution other than the subscription amount. Our ordinary shareholders enjoy the following rights:

- (i) the right to receive dividends and other distributions in proportion to the number of shares held;
- (ii) the right to demand the convening of a shareholders' meeting, convene a shareholders' meeting, attend or appoint a proxy to attend shareholders' meetings and to vote thereat;
- (iii) the right of supervisory management over our business operations and the right to present proposals or to raise queries;
- (iv) the right to transfer, grant or pledge shares so held in accordance with laws, administrative regulations and provisions of our Articles of Association;
- (v) the right to obtain relevant information in accordance with the provisions of our Articles of Association;
- (vi) in the event of our termination or liquidation, the right to participate in the distribution of our surplus assets in accordance with the number of shares held;
- (vii) for shareholders who disagree with the resolutions for the merger and separation of the Company made in a general meeting, the right to demand the Company to purchase their shares; and
- (viii) other rights conferred by laws, administrative regulations and our Articles of Association.

## **Voting Rights**

Shareholders (including proxies), when voting at a shareholders' general meeting, may exercise such voting rights as are attached to the number of voting shares which they hold. Each Share represents one vote. Shares held by the Company do not have voting rights and these shares will not count as the total number of shares entitled to vote. Resolutions at shareholders' general meetings shall be divided into ordinary resolutions and special resolutions. An ordinary resolution must be passed by votes representing more than half of the voting rights represented by the shareholders (including proxies) present at the meeting. A special resolution must be passed by votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting.

Other than the obligations provided by the laws, administrative legislations and the listing rules of the stock exchange on which the Company's shares are listed, our Controlling Shareholder (as defined in the Articles) shall not exercise its voting rights to approve the following matters which will be prejudicial to the interests of all or some of the other shareholders.

- (i) to relieve a director or supervisor of his duty to act honestly in the best interests of the Company;
- (ii) to approve the expropriation by a Director or supervisor (for his own benefit or for the benefit of another person) of the Company's assets in any way, including (without limitation) opportunities which are beneficial to the Company; and
- (iii) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation) rights to distributions and voting rights (save pursuant to a restructuring which has been submitted for approval by the shareholders in a general meeting in accordance with these Articles of Association).

## **Sources of Shareholders' Rights**

The rights and obligations of holders of H Shares and other provisions relating to shareholder protection are principally provided in the Articles of Association and the PRC Company Law. The Articles of Association incorporate mandatory provisions in accordance with the Mandatory Provisions for the Articles of Association of Companies Listed Overseas promulgated by the State Council Securities Commission and the State Restructuring Commission on August 27, 1994 (the "Mandatory Provisions"). We are further subject to management ordinances applicable to the listed companies in Hong Kong SAR and the United States, as our H Shares are listed on the Hong Kong Stock Exchange and the New York Stock Exchange (in the form of ADSs).

In addition, for so long as the H Shares are listed on the Hong Kong Stock Exchange, we are subject to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKSE Rules"), the Securities and Futures Ordinance of Hong Kong (the "SFO") and the Hong Kong Code on Takeovers and Mergers and Share Repurchases. The Listing Agreement between us and the Hong Kong Stock Exchange further provides that we may not permit amendments to certain sections of the Articles of Association subject to the Mandatory Provisions. These sections include provisions relating to (i) varying the rights of existing classes of shares; (ii) voting rights; (iii) the power to purchase our own shares; (iv) rights of minority shareholders; and (v) procedures upon liquidation. In addition, certain amendments to the Articles of Association require the approval and assent of relevant PRC authorities.

## **Mergers and Acquisitions**

In the event of the merger or division of our Company, a plan must be presented by our Board of Directors and approved in accordance with the procedures stipulated in our Articles of Association. Shareholders who object to the plan of merger or division will have the right to demand us or the shareholders who consent to the plan of merger or division to acquire their shares at fair market price. A resolution proposing a merger or division by our company constitutes a special document, which will be available for inspection by our shareholders.

## **Redemption Provisions**

In accordance with the procedures set out in the Articles of Association and upon obtaining approval from relevant government authorities, we may repurchase our issued Shares under the following circumstances:

- (i) canceling Shares to reduce our capital;
- (ii) merger with another company that holds Shares of our Company;
- (iii) granting employee incentive Shares;
- (iv) purchasing the shares of dissenting shareholders; and
- (v) other circumstances permitted by relevant laws and administrative regulations.

Apart from the above, the Company is not allowed to engage in trading of its own shares.

We may repurchase shares in one of the following ways, with the approval of the relevant government authorities:

- (i) by making a general offer to repurchase shares of all our shareholders on a pro rata basis;
- (ii) by repurchasing shares through a public dealing on a stock exchange;
- (iii) by repurchasing shares outside of the stock exchange by means of an off-market agreement; or
- (iv) by other means as authorized by the competent securities authorities under the State Council.

### **Variation of Rights**

The rights attached to any class of shares may not be varied or abrogated except with the approval of a special resolution by all shareholders at a general meeting, along with a special resolution of the holders of the affected class of shares at a separate meeting in accordance with the Articles of Association.

### **Shareholders' Meetings and Notices**

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the Board of Directors. Annual general meetings are held once every year and within six months from the end of the preceding financial year. The Board of Directors is required to convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

- (i) where the number of Directors is less than the number stipulated in the Company Law or two-thirds of the number specified in our Articles of Association or is less than eight (8);
- (ii) where our unrecovered losses amount to one-third of the total amount of our share capital;
- (iii) where shareholder(s) singly or jointly holding 10% or more of our issued and outstanding voting shares request(s) in writing for the convening of an extraordinary general meeting. Within 10 days of receiving such proposal, the Board shall provide its written decision as to whether it agrees to convene such general meeting in accordance with the laws, administrative regulations and the Articles of Association.;
- (iv) whenever the Board of Directors deems necessary or the supervisory committee so requests;
- (v) other cases as provided in laws, administrative regulations and the Articles of Association; or
- (vi) whenever more than a half of the independent Directors so request.

When we convene a shareholders' general meeting, written notice of the meeting shall be given 45 days before the date of the meeting (when calculating the 45 day period, the date on which the meeting is held shall not be included) to notify all of the shareholders whose names appear in the share register of the matters to be considered and the date and place of the meeting, along with the matters to be resolved in the meeting. Shareholders who intend to attend the meeting shall deliver to us their written reply concerning their attendance at such meeting 20 days before the date of the meeting. When we convene an annual general meeting, a shareholder singly or shareholders jointly holding 5% or more of the voting shares of the Company may propose new motions in writing, and we shall include in the agenda those motions which are within the authority of the shareholders' general meeting.

When we convene a shareholders' general meeting, the Board of Directors, the supervisory committee and shareholder(s) individually and jointly holding more than 3% of our shares have the right to propose resolutions to the Company. Shareholder(s) individually and jointly holding more than 3% of our shares may propose special resolutions in writing to the convenor 10 days before the shareholders' general meeting is convened. The convenor shall issue a supplementary notice of the general meeting within two days after receiving the resolutions to announce the contents of the resolutions. Apart from the above, no amendment to the resolutions as set out in the notice of general meeting or proposal of new resolutions shall be made after the convenor has issued the notice of general meeting. The resolutions not set out in the notice of general meeting or that fail to comply with the Articles of Association shall be not voted and resolved in the shareholders' general meeting.

### **Limitations on Voting and Shareholding**

Holders of H Shares and Domestic Shares, with minor exceptions, are entitled to the same economic and voting rights. Consistent with PRC law, the Articles of Association provide that the H Shares can only be traded by investors of Taiwan, Hong Kong, Macau and any country other than the PRC, while A Shares may be traded only by PRC investors and qualified foreign institutional investors. State-owned legal person shares can not be traded unless the approval from the relevant government authorities.

## **Ownership Threshold**

There are no ownership thresholds above which shareholder ownership is required to be disclosed.

## **Changes in Registered Capital**

Pursuant to the Article of Association, any increase or reduction in share capital must be resolved by a special resolution at a shareholders general meeting.

## **Recent Amendments to the Articles of Association**

During the reporting period of this annual report, we made a number of amendments to our Articles of Association. As approved at the 2014 annual general meeting held on May 22, 2015, according to the actual situation of operation and development, our Company expanded its business scope and made corresponding amendments to the Articles of Association.

## **C. Material Contracts**

See “Item 7B. Related Party Transactions — Continuing Connected Transactions — Continuing Connected Transaction under the Financial Services Agreement.”

At the seventh meeting of the sixth session of the Board held on March 27, 2015, our Company considered and approved that: (i) the Company and Yankuang Finance entered into “Financial Services Agreement” and determined the annual cap for such transaction for the period from April 1, 2015 to March 31, 2016; (ii) the Company and Shandong Yankuang Security Service Co., Ltd. entered into “Coal Train Escort Services Agreement”, determining the annual cap for such transaction for the period from February 1, 2015 to March 31, 2016. See “Item 7B. Related Party Transactions — Continuing Connected Transactions — Continuing Connected Transaction under the Financial Services Agreement.”

As considered and approved at the ninth meeting of the sixth session of the Board held on July 27, 2015, the Company acquired 100% of equity interest in Donghua Heavy Industry held by Yankuang Group for a consideration of RMB676 million and the changes in registration were completed on 26 August 2015.

As reviewed and approved at the sixteenth meeting of the sixth session of the Board held on February 17, 2016, Yancoal International, a wholly-owned subsidiary of the Company, subscribed 400,000,000 shares of Zheshang Bank in initial public offering with a total subscription price of HKD1,584.0 million.

## **D. Exchange Controls**

Our Articles of Association require that we pay dividends and other distributions to holders of Foreign-Invested Shares in accordance with relevant foreign exchange control regulations. If there is no applicable regulation, the exchange rate that we use to convert dividends and distributions to foreign currencies will be the average exchange rate of Renminbi to the relevant foreign currency announced by the Bank of China five business days prior to the announcement of the dividend or distribution.

The Renminbi currently is not a freely convertible currency. The SAFE, under the authority of the PBOC, controls the conversion of Renminbi into foreign currency. Under existing foreign exchange regulations, unless otherwise approved by the SAFE or exempted by relevant regulations, PRC enterprises must price and sell their goods and services in the PRC in Renminbi.

Since August 1, 2008, all foreign exchange income generated from current account transactions of PRC enterprises (including foreign-invested enterprises) may be retained by enterprises themselves or be sold to the financial institutions operating the foreign exchange settlement or sale business in accordance with relevant regulations. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares (for example foreign exchange income received by our Company from the sale of shares overseas) is also not required to be sold to financial institutions operating the foreign exchange settlement or sale business, but may be deposited in foreign exchange accounts at the financial institutions operating foreign exchange businesses.

PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items may, without the approval of SAFE, effect payment from their foreign exchange accounts at financial institutions operating foreign exchange businesses, with valid receipts and proof. Upon a board approval, foreign-invested and PRC enterprises that need foreign currency to distribute profits to their shareholders, such as our Company, may make distributions from their foreign exchange accounts or convert RMB into foreign currencies at foreign exchange businesses.

The conversion of foreign exchange with respect to capital account items, like direct investment and capital contribution, is subject to registration formalities at the foreign exchange administrative department of the State Council.

We have established a limited independent foreign currency account since 2001. The primary source of our foreign currency is revenues denominated in U.S. dollars from coal sales. We use foreign currency primarily to settle equipment and machinery purchases and pay cash dividends on our H Shares (in HK dollars). We have not experienced any shortage of foreign currency. In addition, we can exchange Renminbi for additional foreign currency from designated banks for current account transactions by presenting relevant documents to evidence foreign currency requirements in accordance with relevant regulations.

## **E. Taxation**

The following summary of certain tax provisions does not address all of the tax considerations that may be relevant to each investor and is based on the tax laws, notices and treaties of the relevant jurisdictions as of the date of this annual report, all of which are subject to amendments or changes in interpretation, possibly with retroactive effect. This discussion does not deal with all possible tax consequences relating to an investment in the H Shares or ADSs. In particular, the tax consequences under state, local and other laws are not discussed. This discussion does not constitute legal or tax advice. Accordingly, potential investors are strongly urged to consult their own tax adviser to determine the tax consequences of their investment.

### ***The People's Republic of China***

The following discussion summarizes the material PRC tax provisions relating to the ownership and disposition of H Shares or ADSs held by investors as capital assets.

#### **Taxation on Dividends**

***Individual investors.*** Under the Individual Income Tax Law of the PRC of 1993, as amended on June 30, 2011, and other applicable tax laws and regulations, dividends paid by Chinese companies to individuals are generally subject to a PRC withholding tax of 20%. Foreign persons are generally subject to a 20% withholding tax on the dividends received from Chinese companies, unless they are subject to tax relief under applicable taxation arrangement. The SAT issued the Notice on the Issues Concerning the Collection and Administration of Individual Income Tax Following the Repeal of Circular 45, under which both Hong Kong residents and Macau residents will generally be subject to a dividend withholding tax of 10% pursuant to the arrangement for the avoidance of double taxation signed between the PRC and Hong Kong.

***Enterprises.*** According to the EIT Law and the Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Which are Overseas Non-resident Enterprises (Guoshuihan [2008] No. 897) promulgated on November 6, 2008, where a Chinese resident enterprise pays dividends for the year of 2008 or any year thereafter to its H shareholders that are overseas non-resident enterprises, it shall withhold the enterprise income tax thereon at the uniform rate of 10%. After receiving dividends, a non-resident enterprise shareholder may submit an application to the competent tax authority to claim any treatment under a relevant tax agreement (arrangement).

#### **Tax Treaties**

Non-PRC shareholders who are residents or citizens of countries that have entered into treaties to avoid double-taxation with China may be entitled to a reduction in the withholding tax imposed on the payment of dividends. China currently has such treaties with a number of countries, including:

- the United States;
- Australia;
- Canada;

- France;
- Germany;
- Japan;
- Malaysia;
- the Netherlands;
- Singapore; and
- the United Kingdom.

Under each one of these treaties, the withholding tax imposed by China's tax authorities is generally reduced. For example, under the treaty between China and the United States, China may tax dividends paid by us to an eligible U.S. holder up to a maximum of 10% of the gross amount of the dividend. For the purposes of this discussion, an eligible U.S. holder is a person who, by reason of domicile, residence, place or head office, place of incorporation or any other criterion of similar nature is subject to taxation in the United States.

### **Taxation on Capital Gains**

According to the EIT Law, capital gains realized by foreign enterprises which have no establishment or residence in China or whose capital gains from China do not relate to their establishment or residence in China are generally subject to capital gains tax at the rate of 10%.

According to the Interim Measures for Administration of Withholding at Source of Income Tax of Non-resident Enterprises, which was promulgated by the SAT on January 9, 2009, when two non-resident enterprises enter into an equity assignment transaction to transfer the equity of a Chinese enterprise outside the territory of China, the assigning non-resident enterprise shall pay taxes to the competent tax authority in the place where the Chinese enterprise whose equity has been transferred is located. In addition, the Chinese enterprise whose equity is being assigned shall assist the tax authority in the collection of applicable taxes for the transaction.

With respect to individual holders of H Shares, the Provisions for Implementing the Individual Income Tax Law of China, as amended, provides that the levy of individual income tax on the gains realized on the sale of shares will be regulated and separate rules will be drafted by the financial division of the State Council and subject to the approval from the State Council. However, to date, no such implementing measures have been promulgated by the MOF, and no individual income tax on gains realized on sales of shares has been levied. On March 30, 1998, the MOF and the SAT issued notices providing that gains realized by individuals from transferring shares of listed companies were temporarily exempt from individual income tax. If such exemption becomes inapplicable or is not renewed, a non-PRC enterprise shareholder might be subject to a 20% tax on capital gains under the Individual Income Tax Law of the PRC and its amendments.

### **Additional PRC Tax Considerations**

Under the Provisional Regulations of the PRC Concerning the Stamp Duty, Chinese stamp duty is not imposed on the transfer of shares, such as the H Shares or ADSs, of Chinese publicly traded companies by non-Chinese investors that take place outside of China.

### ***United States Federal Income Taxation***

The following summary describes the principal U.S. federal income tax consequences of purchasing, owning and disposing of the H Shares or ADSs. This summary only applies to U.S. holders, as defined below, who hold the H Shares or ADSs as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986 as amended (the "Code"). This discussion does not address all of the U.S. federal income tax consequences relating to the ownership and disposition of the H Shares or ADSs, and does not take into account U.S. holders who may be subject to special rules including:

- tax-exempt entities;
- banks, financial institutions, and insurance companies;
- real estate investment trusts, regulated investment companies and grantor trusts;
- dealers or traders in securities, commodities or currencies;
- U.S. holders that own, actually or constructively, 10% or more of our voting stock;
- persons that receive the H Shares or ADSs as compensation for services;

- U.S. holders that hold the H Shares or ADSs as part of a straddle or a hedging or a conversion transaction;
- “dual resident” corporations;
- persons that generally mark their securities to market for US federal income tax purposes;
- U.S. citizens or tax residents who are residents of the People’s Republic of China;
- U.S. citizens or tax residents who are subject to Hong Kong profits tax;
- certain U.S. expatriates; or
- U.S. holders whose functional currency is not the U.S. dollar.

Moreover, this description does not address United States federal estate, gift or alternative minimum taxes, the U.S. federal unearned Medicare contribution tax or any state or local tax consequences of the purchase, ownership and disposition of the H Shares or ADSs. Each U.S. holder should consult its tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning and disposing of H Shares and ADSs.

This discussion is based on the Code, its legislative history, final, temporary and proposed U.S. Treasury regulations promulgated thereunder, published rulings and court decisions as in effect on the date hereof, all of which are subject to change, or changes in interpretation, possibly with retroactive effect. In addition, this discussion is based in part upon representations of the depository and the assumption that each obligation in the deposit agreement and any related agreements will be performed according to its terms.

*You are a “U.S. holder” if you are a beneficial owner of H Shares or ADSs and for U.S. federal income tax purposes are:*

- an individual citizen or resident of the United States;
- a corporation, created or organized under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income tax without regard to its source; or
- a trust:
  - subject to the primary supervision of a United States court and one or more U.S. persons, (within the meaning of the Code) have the authority to control all substantial decision of the trust; or
  - that has elected to be treated as a United States person under applicable U.S. Treasury regulations.

If a partnership (including any entity treated as a partnership for U.S. federal tax purposes) holds the H Shares or ADSs, the tax treatment of the partnership and a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. If an investor is a partner in a partnership that holds H Shares or ADSs, such investor should consult its tax advisor.

In general, if you hold ADSs, you will be treated as the owner of the H Shares represented by the ADSs. Exchanges of H shares for ADSs, and ADSs for H shares, generally, will not be subject to U.S. federal income tax.

**INVESTORS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSIDERATIONS APPLICABLE TO THEM RELATING TO THE OWNERSHIP AND DISPOSITION OF THE H SHARES OR ADSs, INCLUDING THE APPLICABILITY OF U.S. FEDERAL, STATE AND LOCAL TAX LAWS OR NON-U.S. TAX LAWS, ANY CHANGES IN APPLICABLE TAX LAWS AND ANY PENDING OR PROPOSED LEGISLATION OR REGULATIONS.**

### **Distributions on the H Shares or ADSs**

Subject to the discussions below under “ — Passive Foreign Investment Company,” the gross amount of any distribution (without reduction for any PRC tax withheld) we make on the H Shares or ADSs will be includible in income as dividend income when the distribution is actually or constructively received by you. Because we do not calculate earnings and profits in accordance with U.S. tax principles, all distributions by us to U.S. holders will generally be treated as dividends. Any dividend will not be eligible for the dividends-received deduction allowed to certain U.S. corporations in respect of dividends received from U.S. corporations. The amount of any distribution of property other than cash will be the fair market value of such property on the date of such distribution.

The U.S. dollar amount of dividends received by certain non-corporate U.S. holders will be subject to taxation at a maximum rate of 20% if the dividends are “qualified dividends.” Dividends paid on H Shares or ADSs will be treated as qualified dividends if (a) certain holding period requirements are satisfied, (b) either (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service, or IRS, has approved for the purposes of the qualified dividend rules, or (ii) the dividends are with respect to ADSs readily tradable on a U.S. securities market, and (c) provided that we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company, or PFIC. The Agreement Between the Government of the United States of America and the Government of the People’s Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income (the “Treaty”) has been approved for the purposes of the qualified dividend rules. We should be considered a qualified foreign corporation with respect to the ADSs because our ADSs are listed on the New York Stock Exchange. Relevant U.S. holders should consult their tax advisors regarding whether such dividends will qualify for the reduced tax rate provided by the “qualified dividend” rules.

If we make a distribution paid in HK dollars, you will be considered to receive the U.S. dollar value of the distribution determined at the spot HK dollar/U.S. dollar exchange rate on the date such distribution is received actually or constructively by you, regardless of whether you convert the distribution into U.S. dollars. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includable in your income to the date you convert the distribution into U.S. dollars will be treated as U.S. source ordinary income or loss. If dividends received in HK dollars are converted into U.S. dollars on the day they are received, the U.S. holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income.

Dividends received by a U.S. holder generally will constitute income from sources outside the United States for U.S. foreign tax credit limitation purposes and will be categorized as “passive income” or, in the case of certain U.S. holders, as “general category income” for U.S. foreign tax credit purposes. We may be required to withhold PRC income tax on dividends paid to U.S. holders on the H Shares or ADSs. Subject to various limitations, any PRC tax withheld from distributions in accordance with the Treaty may be deductible or creditable against your U.S. federal income tax liability.

You may not be able to claim a foreign tax credit (and instead may qualify to claim a deduction) for non-U.S. taxes imposed on dividends paid on the H Shares or ADSs if you (i) have held the H Shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss with respect to such shares, or (ii) are obligated to make payments related to the dividends (for example, pursuant to a short sale). The rules relating to the U.S. foreign tax credit are complex, and U.S. holders may be subject to various limitations on the amount of foreign tax credits that are available. In addition, if the dividends are qualified dividends (as discussed above), the amount of the dividend taken into account for purposes of calculating a U.S. holder’s foreign tax credit limitation will generally be limited to the gross amount of the taxable dividend multiplied by the reduced tax rate applicable to qualified dividend income and divided by the highest tax rate normally applicable to dividends. U.S. holders should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

### **Sale, Exchange or Other Disposition**

Subject to the discussions below under “ — Passive Foreign Investment Company,” upon a sale, exchange or other disposition of the H Shares or ADSs, you will generally recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and your tax basis, determined in U.S. dollars, in such H Shares or ADSs. Generally, gain or loss recognized upon the sale or other disposition of H Shares or ADSs will be capital gain or loss, will be long-term capital gain or loss if the U.S. holder’s holding period for such H Shares or ADSs exceeds one year and will be income or loss from sources within the United States for foreign tax credit purposes. For non-corporate U.S. holders, the U.S. income tax rate applicable to net long-term capital gains currently will not exceed 20%. The deductibility of capital losses is subject to significant limitations.

With respect to the sale or exchange of H Shares or ADSs, the amount realized generally will be the U.S. dollar value of the payment received determined on (i) the date of receipt of payment in the case of a cash basis U.S. holder and (ii) the date of disposition in the case of an accrual basis U.S. holder. If H Shares or ADSs are traded on an “established securities market”, a cash basis taxpayer or, if it so elects, an accrual basis taxpayer, will determine the U.S. dollar value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale. A U.S. holder will have a tax basis in the foreign currency received equal to the U.S. dollar amount realized. Any currency exchange gain or loss realized on a subsequent conversion of the foreign currency into U.S. dollars for a different amount generally will be treated as ordinary income or loss from sources within the United States. However, if such foreign currency is converted into U.S. dollars on the date received by the U.S. holder, a cash basis or electing accrual basis U.S. holder should not recognize any gain or loss on such conversion.

Any gain or loss will generally be treated as U.S. source gain or loss for foreign tax credit limitation purposes under the Code. Under the Treaty, if any PRC tax was to be imposed on any gain from the disposition of H Shares or ADSs, U.S. holders may be able to credit such taxes against their U.S. federal income tax liability under the U.S. foreign tax credit limitations of the Code since such gain generally would be “resourced” under Article 22(3) of the Treaty as foreign source income for U.S. foreign tax credit purposes. U.S. holders are urged to consult their tax advisors regarding the interaction of the foreign tax credit rules and Treaty “resourcing” rule.



## Passive Foreign Investment Company

A non-U.S. corporation is a PFIC for any taxable year in which, after applying relevant look-through rules with respect to the income and assets of subsidiaries:

- 75% or more of its gross income consists of passive income; or
- 50% or more of the average quarterly value of its gross assets consists of assets that produce, or are held for the production of, passive income.

“Passive income” for this purpose includes, for example, dividends, interest, royalties, rents and gains from commodities and securities transactions. Passive income does not include rents and royalties derived from the active conduct of a trade or business. If the stock of a non-U.S. corporation is publicly traded for the taxable year, the asset test is applied using the fair market value of the assets for purposes of measuring such corporation’s assets. If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation’s assets and receiving our proportionate share of the other corporation’s income for purposes of the PFIC income and asset tests.

Based on the current and anticipated composition of our assets and income and current expectations regarding the price of the H Shares and ADSs, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2015 taxable year and we do not intend to become or anticipate becoming a PFIC for any future taxable year. However, the determination of PFIC status is a factual determination that must be made annually at the close of each taxable year and therefore, there can be no certainty as to our status in this regard for the current or any future taxable years. Changes in the nature of our income or assets or a decrease in the trading price of the H Shares or ADSs may cause us to be considered a PFIC in the current or any subsequent year. If we were a PFIC in any year during a U.S. holder’s holding period for the H Shares or ADSs, we would ordinarily continue to be treated as a PFIC for each subsequent year during which the U.S. holder owned the shares.

If we were a PFIC in any taxable year that you held the H Shares or ADSs, you generally would be subject to special rules with respect to “excess distributions” made by us on the H Shares or ADSs and with respect to gain from your disposition of the H Shares or ADSs. An “excess distribution” generally is defined as the excess of the distributions you receive with respect to the H Shares or ADSs in any taxable year over 125% of the average annual distributions you have received from us during the shorter of the three preceding years, or your holding period for the H Shares or ADSs. Generally, you would be required to allocate any excess distribution or gain from the disposition of the H Shares or ADSs ratably over your holding period for the H Shares or ADSs. The portion of the excess distribution or gain allocated to a prior taxable year, other than a year prior to the first year in which we became a PFIC, would be taxed at the highest U.S. federal income tax rate in effect for such taxable year, and you would be subject to an interest charge on the resulting tax liability, determined as if the tax liability had been due with respect to such particular taxable years. The portion of the excess distribution or gain that is not allocated to prior taxable years, together with the portion allocated to the years prior to the first year in which we became a PFIC, would be included in your gross income for the taxable year of the excess distribution or disposition and taxed as ordinary income.

These adverse tax consequences may be mitigated if the U.S. holder is eligible and does elect to annually mark-to-market the H Shares or ADSs. If a U.S. holder makes a mark-to-market election, such holder will generally include as ordinary income the excess, if any, of the fair market value of the H Shares or ADSs at the end of each taxable year over their adjusted basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of the H Shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included in income as a result of the mark-to-market election). Any gain recognized on the sale or other disposition of the H Shares or ADSs will be treated as ordinary income. The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable Treasury regulations. ADSs should qualify as “marketable stock” because the ADSs are listed on the New York Stock Exchange.

A U.S. holder’s adjusted tax basis in the H Shares or ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. holder makes a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the H Shares or ADSs are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election. U.S. Holders are urged to consult their tax advisors about the availability of the mark-to-market election, and whether making the election would be advisable in their particular circumstances. However, the stock of any of our subsidiaries that were PFICs would not be eligible for the mark-to-market election.

Alternatively, a timely election to treat us as a qualified electing fund would avoid the foregoing rules with respect to excess distributions and dispositions. You should be aware, however, that if we become a PFIC, we do not intend to satisfy the record keeping requirements that would permit you to make a qualified electing fund election.

If we were regarded as a PFIC, a U.S. holder of H Shares or ADSs generally would be required to file an information return on IRS Form 8621 for any year in which the holder received a direct or indirect distribution with respect to the H Shares or ADSs, recognized gain on a direct or indirect disposition of the H Shares or ADSs, or made an election with respect to the H Shares or ADSs, reporting distributions received and gains realized with respect to the H Shares or ADSs. In addition, if we were regarded as a PFIC, a U.S. holder would be required to file an annual information return (also on IRS Form 8621) relating to the holder's ownership of the shares or ADSs. This requirement would be in addition to other reporting requirements applicable to ownership in a PFIC.

U.S. holders should consult their tax advisers concerning the U.S. federal income tax consequences of holding the H Shares or ADSs if we were considered to be a PFIC.

### **Backup Withholding and Information Reporting**

In general, information reporting requirements will apply to dividends in respect of the H Shares or ADSs or the proceeds of the sale, exchange, or redemption of the H Shares or ADSs paid within the United States, and in some cases, outside of the United States, other than to various exempt recipients, including corporations. In addition, you may, under some circumstances, be subject to "backup withholding" with respect to dividends paid on the H Shares or ADSs or the proceeds of any sale, exchange or transfer of the H Shares or ADSs, unless you:

- are a corporation or fall within various other exempt categories, and, when required, demonstrate this fact;
- provide a correct taxpayer identification number on a properly completed IRS Form W-9 or a substitute form, certifying that you are exempt from backup withholding and otherwise comply with applicable requirements of the backup withholding rules; or
- provide a properly completed IRS Form W-8, certifying your status as a non U.S. holder.

Any amount withheld under the backup withholding rules generally will be creditable against your U.S. federal income tax liability or may be refunded to the extent they exceed such liability provided that you furnish the required information to the IRS in a timely manner. Investors should consult their own tax advisors as to their qualifications for an exemption from backup withholding and the procedures for obtaining this exemption.

Certain U.S. holders must report information relating to stock of a non-U.S. person owned by the U.S. holder, subject to certain exceptions (including an exception for stock held in custodial accounts maintained by a U.S. financial institution). U.S. holders are urged to consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the H Shares or ADSs.

### ***Hong Kong Taxation***

The following discussion summarizes the relevant Hong Kong tax rules relating to the ownership of H shares or ADSs held by you.

#### **Dividends**

Under current Hong Kong Inland Revenue Department practice, no profits tax is payable by the recipient in respect of dividends paid by us.

#### **Taxation of Capital Gains**

Gains derived from the sale of capital assets are specifically exempt from profits tax. Thus, no profits tax is imposed on gains arising from the sale of property (such as H shares) acquired and held as a capital investment. However, whether or not there has been a sale of a capital asset depends upon the particular circumstances of a case. For example, if a person carries on a business in Hong Kong of trading and dealing in securities and derives trading gains from that business in Hong Kong, that person could be subject to profits tax on any assessable gains. Assessable gains include gains derived from purchases and sales of H shares effected on the Hong Kong Stock Exchange, as these are considered to be derived from Hong Kong from that person's business. Profits tax is currently charged at the rate of 16.5% for corporations and at the rate of 15% for individuals.

No profits tax liability will arise on capital or trading gains arising from the sale of ADSs where the purchase and sale is effected outside Hong Kong (e.g., on the NYSE).

## Stamp Duty

Stamp duty is payable by each of the seller and the purchaser for every sold note and every bought note created for every sale and purchase of the H shares. Stamp duty is levied at the total rate of 0.2% of the higher of the consideration for the sale and purchase or the value of the H shares transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on an instrument of transfer of H shares. If one of the parties to a sale is a non-resident of Hong Kong and does not pay the required stamp duty, the amount of unpaid stamp duty will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such unpaid amount.

If the withdrawal of H shares when ADSs are surrendered or the issuance of ADSs when H shares are deposited results in a change of beneficial ownership in the H shares under Hong Kong law, stamp duty at the rate cited above will apply. The issuance of ADSs for deposited H shares issued directly to the depository, or for the account of the depository, should not result in any stamp duty liability. Holders of the ADSs are not liable for stamp duty on transfers of ADSs outside of Hong Kong so long as the transfers do not result in a change of beneficial interest in the H shares under Hong Kong law.

## F. Dividends and Paying Agents

Not applicable.

## G. Statement by Experts

Not applicable.

## H. Documents on Display

In accordance with the Exchange Act, we must file reports, including this annual report, and other information with the Commission. The reports and other information we have filed under the Exchange Act and the registration statement on Form F-1 and exhibits thereto we have previously filed with the Commission may be inspected and copied by the public at the public reference facilities maintained by the Commission at 100 F Street NE, Washington D.C. 20549, U.S.A. and will also be available for inspection and copying at the regional offices of the Commission located at Seven World Trade Center, 13th Floor, New York, New York 10048, U.S.A. and at Northwest Atrium Center, 500 Madison Street (Suite 1400), Chicago, Illinois 60661, U.S.A. Copies of such material may also be obtained from the Public Reference Section of the Commission at 100 F Street NE, Washington D.C. 20549, U.S.A. at prescribed rates. Our annual reports and other information filed with the Commission are also available at the Commission's website at [www.sec.gov](http://www.sec.gov). Such reports and other information may also be inspected at the office of the New York Stock Exchange, 11 Wall Street, New York, New York 10005, U.S.A.

## I. Subsidiaries

As of December 31, 2015, we owned the following significant subsidiaries:

Name of subsidiary	Country of incorporation/ registration	Issued and fully paid capital/ registered capital	Proportion of registered capital/issued share capital held by us		Proportion of voting power held	Principal activities
			Directly	Indirectly		
Yanzhou Coal Ordos Neng Hua Company Limited (兗州煤業鄂爾多斯能化有限公司)	PRC	RMB8,100,000,000	100%	—	100%	Coal resources exploration in Inner Mongolia and construction of 600,000 tonne methanol project
Inner Mongolia Rongxin Chemicals Company Limited (內蒙古榮信化工有限公司)	PRC	RMB 648,360,000	—	100%	100%	Development of methanol project
Inner Mongolia Yize Mining Investment Co., Ltd (內蒙古伊澤礦業投資有限公司)	PRC	RMB 675,000,000	—	100%	100%	Development of methanol project
Inner Mongolia Xintai Coal Mining Company Limited (內蒙古鑫泰煤炭開採有限公司)	PRC	RMB 5,000,000	—	100%	100%	Coal mining and sales
Ordos Zhuanlongwan Coal Mining Company Limited (鄂爾多斯市轉龍灣煤炭有限公司)	PRC	RMB5,050,000,000	—	100%	100%	Coal mining and sales, manufacturing and sales of mining equipment and machinery
Inner Mongolia Haosheng Coal Mining Co., Ltd (內蒙古昊盛煤業有限公司)	PRC	RMB 904,900,000	77.75%	—	77.75%	Sales of coal mine machinery equipment and accessories
Yanzhou Coal Yulin Neng Hua Company Limited (兗州煤業榆林能化有限公司)	PRC	RMB1,400,000,000	100%	—	100%	Methanol and electricity power business

Name of subsidiary	Country of incorporation/ registration	Issued and fully paid capital/ registered capital	Proportion of registered capital/issued share capital held by us		Proportion of voting power held	Principal activities
			Directly	Indirectly		
Yanmei Heze Neng Hua Company Limited (兗煤荷澤能化有限公司)	PRC	RMB3,000,000,000	98.33%	—	98.33%	Coal mining and sales
Shandong Yanmei Rizhao Port Coal Storage and Blending Co., Ltd (山東兗煤日照港儲配煤有限公司)	PRC	RMB 300,000,000	51%	—	51%	Coal wholesale management
Shandong Yanmei Shipping Co., Ltd. (山東兗煤航運有限公司)	PRC	RMB 5,500,000	92%	—	92%	Transportation via rivers and lakes and the sales of coal and construction materials
Zhongyin Financial Leasing Company Limited (中垠融資租賃有限公司)	PRC	RMB2,060,000,000	73%	24%	97%	Financial leasing
Yankuang Donghua Heavy Industry Limited (兗礦東華重工有限公司)	PRC	RMB 370,567,964	100%	—	100%	Manufacturing of coal mining and excavating equipment
Yancoal International (Holding) Co., Ltd	Hong Kong	USD 689,313,091	100%	—	100%	Investment holding
Yancoal International Resources Development Co., Limited	Hong Kong	USD 600,000	—	100%	100%	Coal resource exploration development
Yancoal International Trading Co., Limited	Hong Kong	USD 1,000,000	—	100%	100%	Entrepot trade
Moolarben Coal Mines Pty Limited	Australia	A\$ 1	—	100%	100%	Coal business development
Yancoal Australia Limited	Australia	A\$ 656,700,717	78%	—	78%	Investment holding
Yarrabee Coal Company Pty Limited	Australia	A\$ 92,080	—	100%	100%	Coal mining and sales
Austar Coal Mine Pty Limited	Australia	A\$ 64,000,000	—	100%	100%	Coal mining and sales
Gloucester Coal Ltd	Australia	A\$ 719,720,808	—	100%	100%	Coal resource exploration development
Stratford Coal Marketing Pty Ltd	Australia	A\$ 10	—	100%	100%	Coal sales
Yancoal Energy Pty Ltd	Australia	A\$ 202,977,694	—	100%	100%	Investment holding
Duralie Coal Pty Ltd	Australia	A\$ 2	—	100%	100%	Coal mining
Donaldson Coal Pty Ltd	Australia	A\$ 6,688,782	—	100%	100%	Coal mining and sales
Premier Coal Holdings Pty Limited	Australia	A\$ 321,613,108	—	100%	100%	Investment holding
Yancoal Australia Sales Pty Ltd	Australia	A\$ 100	—	100%	100%	Coal sales
Ashton Coal Mines Limited	Australia	A\$ 5	—	100%	100%	Coal sales

For details of our shareholding in other direct and indirect subsidiaries, please see “Item 4 Information on the Company — C. Organizational Structure”.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. As a global concern, we are exposed to adverse developments in commodity prices, interest rates, foreign currency exchange rates, equity prices and inflation. These exposures may change over time as our business develops and could have a material impact on our financial results.

### Commodity Price Risk

Price fluctuations may directly affect our operating and financial performance. We have historically experienced substantial price fluctuations and believe these fluctuations will continue. We primarily face risk relating to coal price fluctuations, and to a lesser extent methanol price fluctuations. For the years ended December 31, 2013, 2014 and 2015, the average selling price of our coal products in the PRC was RMB523.5, RMB475.6 and RMB376.8 per tonne, respectively. The periodic fluctuation in coal prices was caused by factors such as general economic conditions, supply and demand and the level of global inventories. The average selling price of our coal and methanol products fluctuated in the past three years and it may continue to fluctuate as a result of pricing guidelines announced by the government authorities from time to time, temporary price controls, general economic conditions, supply and demand and the level of global inventories, which may, in turn, adversely affect our results of operations and financial condition.

During the year ended December 31, 2015, the Group entered into futures contract to sell specified amount of methanol. The objective of entering into the futures contract is to reduce the related volatility of methanol selling price and thereby assist in risk management of the Group. The outstanding futures contract are hedging highly probable methanol transaction price.

As at December 31, 2015, the outstanding notional amount of futures contract to sell methanol was approximately RMB 2.8 million whilst as at December 31, 2014, the futures contract to sell thermal coal, the outstanding notional amount was RMB 3.3 million.

### Interest Rate Risk

We are exposed to interest rate risk in relation to variable-rate bank balances, term deposits, restricted cash held with banks and variable rate borrowings. Our interest rate risk primarily arises due to fluctuations in the PBOC benchmark interest rate in relation to our RMB-denominated borrowings and fluctuations in LIBOR in relation to our U.S. dollar-denominated borrowings. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate liabilities. Interest rate fluctuations can also lead to significant fluctuations in the fair values of our debt obligations.

The Company monitors its interest rate exposure and has entered into contracts with three banks to hedge a proportion of borrowings issued at variable interest rates through the use of floating-to-fixed interest rate swap contracts. As of December 31, 2015, all of our interest rate swap contracts was expired, and we did not enter into any new interest rate swap contracts.

We have prepared a sensitivity analysis to assess the impact of interest rate fluctuations on our 2015 operating results, assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all the variables were held constant, including the interest rate fluctuations of the PBOC rate and LIBOR discussed above. Based on this analysis, we estimate that an increase in interest rates of 1% would have decreased our reported net income attributable to our equity holders for 2015 by approximately RMB135.0 million.

### Foreign Currency Exchange Rate Risk

We mainly face foreign currency exchange rate risks relating to RMB fluctuations and risks stemming from exchange rate fluctuations between the Australian dollar and U.S. dollar. China as adopted a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand with reference to a basket of currencies. Exchange rate fluctuations may adversely affect the value of our net assets, earnings and any declared dividends when translated or converted into U.S. dollars or Hong Kong dollars.

RMB fluctuations mainly affect our (i) income from coal exports, which must be converted into RMB since our coal exports are denominated in U.S. dollars; (ii) conversion of foreign currency deposits and loans; and (iii) costs of imported equipment and fittings.

The sales and costs of each entity in our Company are generally denominated in the functional currency of the relevant entity. Accordingly, we are not exposed to significant foreign currency risk attributable to operations. However, our results, including the results of Yancoal Australia have been significantly affected by volatility in exchange rates affecting the fair value of our foreign currency-denominated bank borrowings, giving rise to substantial exchange gains and losses. The table below sets forth the foreign currency-denominated assets and liabilities of the Company and its Subsidiaries that are in currencies other than the functional currency of the entity that carries such assets or liabilities on its balance sheet as of December 31, 2015.

	Liabilities		Assets	
	2015	2014	2015	2014
	(foreign currencies converted and denominated in RMB millions)			
United States Dollars (US\$)	43,411.2	35,377.5	5,970.6	3,921.0
Euro ("EUR")	—	3.5	8.8	14.9
Hong Kong Dollar (HK\$)	—	—	22.4	0.02
Notional amounts to sell US\$ foreign exchange contracts used for hedging	—	134.6	—	432.3

Except as disclosed in our financial statements and as described below, we do not have a foreign currency hedging policy. However, our management monitors our foreign exchange exposure and will consider hedging significant currency exposure if the need arises.

We are mainly exposed to the fluctuation against the currency of U.S. dollar.

We have prepared a sensitivity analysis to assess the impact of exchange rate fluctuations on our operating results based on a 5% increase or decrease in the exchange rates for the U.S. dollar or Hong Kong dollar against the Renminbi. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts the translation of these monetary items as of the end of the indicated year for a 5% change in the exchange rates for the relevant currencies. The sensitivity analysis also assesses the impact of a 5% increase or decrease in the exchange rate for the Australian dollar against the U.S. dollar, which would affect loans to foreign operations within our Company that are denominated in a currency other than the functional currency of the lender or the borrower.

The sensitivity analysis represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. It includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates and also assumes all other risk variables remained constant. The sensitivity analysis includes loans to foreign operations within the Company where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

The following table sets forth the sensitivity analysis of the relevant foreign currencies of the periods indicated:

	US\$ <sup>(1)</sup>			
	2015	2014		
	(RMB in millions)			
<b>Increase (decrease) to profit and loss</b>				
- if RMB weakens against respective foreign currency	(247.7)	(92.1)		
- if RMB strengthens against respective foreign currency	247.7	92.1		
	USD <sup>(2)</sup>		Euro <sup>(2)</sup>	
	2015	2014	2015	2014
	(RMB in millions)			
<b>Increase (decrease) to profit and loss</b>				
- if AUD weakens against respective foreign currency	30.0	38.7	—	(0.12)
- if AUD strengthens against respective foreign currency	(30.0)	(38.7)	—	0.12
<b>Increase (decrease) to profit attributable to the equity holders of the Company</b>				
- if AUD weakens against respective foreign currency	601.7	(599.9)	—	(0.12)
- if AUD strengthens against respective foreign currency	(601.7)	599.9	—	0.12

(1) Reflects primarily our exposure outstanding on bank deposits and loans denominated in U.S. dollars as of the year end.

(2) Reflects primarily the exposure outstanding on the bank borrowings and derivative financial instruments where the denomination of the loan is in a currency other than the functional currency of the borrower.

As of December 31, 2015, the outstanding sell USD contracts are hedging highly probable forecast sales of coal, whereas the outstanding buy AUD and USD contracts relate to the settlement of CNY term deposits. The contracts are timed to settle when the RMB term deposits mature. There were also outstanding sell AUD and buy EUR contracts which relate to settlement of EUR purchases.

The outstanding sell USD contracts are hedging highly probable forecast sales of coal. The contracts are timed to mature when funds for coal sales are forecast to be received.

For the year ended December 31, 2015, the ineffective hedging portion of the changes in fair values of the forward foreign exchange contracts of approximately RMB284.1 million was recognized as selling, general and administrative expenses in the consolidated income statement. The effective hedging portion was recognized as current portion of derivatives financial instruments in the consolidated balance sheet.

### Equity Price Risk

In addition to financial instruments, we are exposed to equity price risk because we hold investments in listed equity securities. We currently do not have any arrangements to hedge the price risk exposure of our investment in equity securities. We have conducted a sensitivity analysis and determined that our exposure to equity price risk stemming from our investment in listed equity securities is not significant.

### Inflation Risk

The recent global economic slowdown and turmoil in the global financial markets that began in the second half of 2008 have had a negative impact on the PRC economy, including increases in the inflation rate as measured by the consumer price index. According to the National Bureau of Statistics of the PRC, the change in the Consumer Price Index in China was 2.6%, 2.0% and 1.4% in 2013, 2014 and 2015, respectively. Inflation generally results in an increase of fuel prices, which is a component of our cost of sales. An increase in the price of fuel could lead to a corresponding increase in the cost of our coal production and have a material adverse effect on our business and results of operations.

## Liquidity Risk

We are exposed to liquidity risks related to meeting our financial obligations as they fall due. To mitigate this risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations. Our management also monitors the utilization of bank borrowings and ensures compliance with loan covenants to ensure that we are able to meet our short-term and long-term liquidity requirements.

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable.

### C. Other Securities

Not applicable.

### D. American Depositary Shares

The following table summarizes the fees and charges that a holder of our ADSs may have to pay, directly or indirectly, in connection with the ownership of our American Depositary Receipts.

Persons depositing or withdrawing shares must pay:	For:
\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	<ul style="list-style-type: none"><li>• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property</li></ul>
\$0.02 (or less) per ADSs (or portion of ADSs)	<ul style="list-style-type: none"><li>• Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates</li><li>• Cash distribution</li></ul>
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	<ul style="list-style-type: none"><li>• Distribution of securities to holders of deposited securities that are distributed by the depository to ADS registered holders</li></ul>
Registration or transfer fees	<ul style="list-style-type: none"><li>• Transfer and registration of shares on our share register to or from the name of the depository or its agent when you deposit or withdraw shares</li></ul>
Expenses of the depository	<ul style="list-style-type: none"><li>• Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)</li><li>• Converting foreign currency to U.S. dollars</li></ul>
Taxes and other governmental charges the depository or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	<ul style="list-style-type: none"><li>• As necessary</li></ul>
Any charges incurred by the depository or its agents for servicing the deposited securities	<ul style="list-style-type: none"><li>• As necessary</li></ul>

The Bank of New York Mellon, as depository, has agreed to waive certain standard fees related to the administration of our ADR program and investor relationship programs. From January 1, 2015 to December 31 2015, the total amount of the fees that were waived was US\$130,227.7.

## **PART II**

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

As of December 31, 2015, we were not in default, in arrears or otherwise delinquent in the payment of principal or interest of any indebtedness or dividends.

### **ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

### **ITEM 15. CONTROLS AND PROCEDURES**

#### ***Evaluation of Disclosure Controls and Procedures***

Under the supervision and with the participation of our general manager and chief financial officer, our management evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as amended) as of December 31, 2015. Based on the evaluation described below, our general manager and chief financial officer concluded that, as of that date, our disclosure controls and procedures were effective.

#### ***Management's Report on Internal Control over Financial Reporting***

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control framework was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on this assessment, management concluded that our internal control over financial reporting was effective to provide reasonable assurance that the desired control objectives were achieved as of December 31, 2015.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Grant Thornton, our independent registered public accounting firm, as stated in their report which is included herein.

#### ***Limitations on Effectiveness of Controls and Procedures***

Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (3) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not be able to prevent or detect misstatements on a timely basis, which may be a product of collusion, failure to abide by controls, error or fraud. In addition, projections of the internal control's effectiveness to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the internal control policies or procedures may deteriorate.

#### ***Changes in Internal Control over Financial Reporting***

During the period covered by this annual report, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our audit committee consists of Mr. JIA Shaohua, Mr. WANG Lijie, Mr. WANG Xiaojun, Mr. XUE Yonzhi and Mr. JIANG Qingquan. Our Board of Directors has determined that Mr. JIA Shaohua meets the independence requirement of Section 303A.02 of the NYSE Listed Company Manual and qualifies as an audit committee financial expert as the term is defined in the rules and regulations established by the SEC.



## ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our chairman, vice chairman, chief executive officer, chief financial officer, board secretary, chief engineer, controller and the managers of our finance and audit departments. Our code of ethics is posted on our website at [www.yanzhoucoal.com.cn](http://www.yanzhoucoal.com.cn). No amendments to, or waivers from, our code of ethics have been made. A copy of our code of ethics is available to any shareholder, without charge, upon written request to the address on the cover of this annual report.

## ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Upon approval at the 2014 Annual General Meeting held on May 22, 2015, Grant Thornton firms (i.e. Grant Thornton and Grant Thornton Hong Kong) and ShineWing Certified Public Accountants were appointed as our international and domestic auditors, respectively, for the year ended December 31, 2015. Grant Thornton Hong Kong and Grant Thornton audit the financial statements of the Company with respect to the listing of the H shares on the Hong Kong Stock Exchange and reporting requirements of the Hong Kong Stock Exchange and the listing of the ADSs on the NYSE and reporting requirements of the SEC and the NYSE, respectively. Grant Thornton is therefore the principal auditor for the purpose of this filing.

### *Audit Fees*

Audit fees primarily consist of fees for the audits of the consolidated financial statements prepared under IFRS and PRC GAAP and the statutory financial statements of our subsidiaries for the relevant year, the review of interim consolidated financial statements and the audit of our internal control over financial reporting as required by the Sarbanes-Oxley Act. Service fees denominated in Australian dollars were incurred for the audit of Yancoal Australia's financial statements and internal control.

The following table sets forth the aggregate audit fees of Grant Thornton firms, ShineWing Certified Public Accountants and ShineWing Australia for periods indicated:

	Audit Fees	
	(RMB)	(AUD)
2014	7,800,000	1,350,000
2015	7,800,000	900,000

Audit fees paid to Grant Thornton firms amounted to RMB3,650,000 and RMB3,650,000 during the years ended December 31, 2015 and 2014, respectively.

### *Audit-related Fees, Tax Fees, All Other Fees*

We did not incur other audit-related fees, tax fees or other fees for professional service rendered by our principal accountants during the last two fiscal years.

### *Audit Committee Pre-Approval Policies and Procedures*

The audit committee of our Board of Directors is responsible for, among other things, the recommendation or termination of external auditors subject to the requirements of applicable domestic and overseas listing rules and regulations. Before our principal accountants were engaged by the Company or our subsidiaries to render audit or non-audit services, their respective engagements were approved by our audit committee. All of the audit services provided by Grant Thornton (SEC principal auditor), Grant Thornton Hong Kong (Hong Kong H Share auditor) and ShineWing Certified Public Accountants (China domestic statutory auditor) in 2015 were pre-approved by our audit committee.

## ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Our audit committee consists of four independent non-executive directors, Mr. WANG Lijie, Mr. JIA Shaohua, Mr. WANG Xiaojun, Mr. XUE Yonzhi and one employee director, Mr. JIANG Qingquan. As a foreign private issuer, we rely on the exemption under Section 303A.06 of the NYSE Listed Company Manual, as well as exemptions for affiliated directors and employee directors as provided under Rule 10A-3 of the Exchange Act, to remain compliant with the audit committee standards set out in Section 303A.06 of the NYSE Listed Company Manual.

Our connected directors do not accept any consulting fees or other compensation from our Group or any subsidiary of our Group, directly or indirectly, except for serving as members of our Board and Audit Committee, which meets the independence requirements under Rule 10A-3(1)(ii)(A) of the Exchange Act.

The employee director qualifies for the exemption under Rule 10A-3(b)(1)(iv)(C) of the Exchange Act because he is not our executive officer and was elected to the Board of Directors of the Company pursuant to the *Advisory Opinion Regarding the Establishment of Sound Corporate Governance for Company Employee Directors and Employee Supervisors*, which was promulgated by the Shandong Economic and Trade Commission. Rule 10A-3(b)(1)(iv)(C) of the Exchange Act provides an exemption to the independence requirement and permits an employee director of a foreign private issuer who is a non-executive officer who is elected or named to the foreign private issuer’s board of directors or audit committee pursuant to the issuer’s governing law or documents, an employee collective bargaining or similar agreement or other home country legal or listing requirements.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not applicable.

**ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

The NYSE imposes a series of corporate governance listing standards for companies listed on the NYSE in Section 303A of the NYSE Listed Company Manual. However, the NYSE allows foreign private issuers, subject to certain limitations and conditions, to follow “home country” practice in lieu of certain provisions of Section 303A. To qualify for this exemption, a foreign private issuer must disclose the significant manners in which its corporate governance practices differ from those generally required under NYSE listing standards.

As of the date of this annual report, 56.59% of the voting rights in the Company are held by our controlling shareholder, the Yankuang Group and its wholly owned subsidiaries. We therefore are not required to comply with the majority of independent directors requirement of Section 303A.01 when forming our board of directors. Moreover, we are not required to form a nominating, corporate governance and compensation committee composed entirely of independent directors under the requirements of Sections 303A.04 and 303A.05.

We have established an audit committee pursuant to Section 303A.06 of the NYSE Listed Company Manual. We rely on the exemption under Section 303A.00 for foreign private issuers, as well as the exemption for employee directors provided under Rule 10A-3 of the Exchange Act to comply with the audit committee requirements set out in the NYSE Listed Company Manual.

As a foreign private issuer, we are subject to more than one set of corporate governance requirements, including those applicable in our home country. In the table below, we set out material differences between our corporate governance practices and the NYSE’s corporate governance requirements:

	<u>NYSE Listed Company Manual Requirements on Corporate Governance</u>	<u>Our Practice</u>
<b>Non-executive directors must meet at regularly scheduled executive sessions without management</b>	Section 303A.03 requires non-executive directors of each listed company to meet at regularly scheduled executive sessions without management participation.	There is no identical corporate governance requirement in the PRC. We have established a reporting system to the Board to ensure that the Directors stay informed of our business and operations. We believe that convening board meetings on a regularly basis offers non-executive directors an effective forum to opine their views and engage in full and open discussions regarding our business affairs.

## Corporate Governance Guidelines

### NYSE Listed Company Manual Requirements on Corporate Governance

Section 303A.09 requires a listed company to adopt and disclose corporate governance guidelines. In addition, Section 303A.09 lists out matters that must be addressed in the guidelines:

- director qualification standards;
- director responsibilities;
- communications between directors and the management and independent advisors;
- director compensation;
- director orientation and continuing education;
- management succession; and
- annual performance evaluation of the board.

### Our Practice

Although we have not adopted a separate set of corporate governance guidelines encompassing all the corporate governance matters required by the NYSE, we formulated the Rules of Procedures for the Shareholders' Meetings, Rules of Procedures for the Board Meetings, Rules of Procedures for the Supervisory Committee, Rules for the Work of the Independent Non-Executive Directors, Rules for Disclosure of Information, Rules for the Approval and the Disclosure of the Connected Transactions of the Company, and other corporate governance documentation in accordance with the regulations and requirements of listing in China.

We believe that collectively, the foregoing rules and measures adequately address the corporate governance requirements of the NYSE and provide a comprehensive and detailed set of corporate governance requirements that promote the effective operation of the Company. This enables the promotion of the standard operation of the Company.

## Code of Business Conduct and Ethics

Section 303A.10 requires a listed company to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers from the code for directors or executive officers. The following topics must be addressed in a code of business conduct and ethics:

- conflicts of interest;
- corporate opportunities;
- confidentiality;
- fair dealing;
- protection and proper use of company assets;
- compliance with laws, rules and regulations (including insider trading laws); and
- encouraging the reporting of any illegal or unethical behavior.

We have adopted a code of ethics, which is published on our website, in compliance with PRC laws and regulations as well as the rules of relevant stock exchanges. Although our current code of ethics as adopted does not completely conform to the NYSE rules, we believe that the existing code of ethics adequately protects the interests of the Company and Shareholders.

## ITEM 16H. MINING SAFETY DISCLOSURE

As of the date of this annual report, the Company did not own or operate any mine in the United States. For details of the mining safety control of our coal mines in China and Australia, see "Item 4. Information on the Company — B. Business Overview — Coal Business — Safety Control."

### **PART III**

#### **ITEM 17. FINANCIAL STATEMENTS**

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

#### **ITEM 18. FINANCIAL STATEMENTS**

Our consolidated financial statements are included at the end of this annual report on Form 20-F.

#### **ITEM 19. EXHIBITS**

Documents filed as exhibits to this annual report:

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
<b>1.1</b>	Articles of Association as amended on May 22, 2015 (English Translation)
<b>4.1</b>	Financial Services Agreement between Yankuang Group Finance Co., Ltd. and Yanzhou Coal Mining Company Limited dated March 27, 2015
<b>4.2</b>	Coal Train Convoy Service Contract between Shandong Yankuang Security Service Company Limited and Yanzhou Coal Mining Company Limited dated March 27, 2015
<b>4.3</b>	Equity Transfer Agreement 100% of the Equity Interest of Yankuang Donghua Heavy Industry Co., Ltd. between Yankuang Group Corporation Limited and Yanzhou Coal Mining Company Limited dated July 27, 2015
<b>4.4</b>	Cornerstone Investment Agreement among China Zheshang Bank Co., Ltd., Yancoal International (Holding) Company Limited, Yanzhou Coal Mining Company Limited and CMB International Capital Limited dated March 8, 2016
<b>8.1</b>	List of subsidiaries of Yanzhou Coal Mining Company Limited
<b>12.1</b>	Certification of general manager pursuant to Rule 13a-14 or 15d-14 promulgated under the U.S. Securities Act of 1934
<b>12.2</b>	Certification of chief financial officer pursuant to Rule 13a-14 or 15d-14 promulgated under the U.S. Securities Act of 1934
<b>13.1</b>	Certification of general manager pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002
<b>13.2</b>	Certification of chief financial officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002

## **SIGNATURES**

The registrant hereby certifies that it meets all the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**YANZHOU COAL MINING COMPANY LIMITED  
(Registrant)**

**Date:** April 26, 2016

By: /S/ WU Xiangqian

Name: **WU Xiangqian**

Title: **Director and General Manager**

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 and 2013  
AND REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**BOARD OF DIRECTORS AND SHAREHOLDERS**

**YANZHOU COAL MINING COMPANY LIMITED 兖州煤业股份有限公司**

*(A joint stock company with limited liability established in the People's Republic of China)*

We have audited the accompanying consolidated balance sheets of Yanzhou Coal Mining Company Limited and its subsidiaries (the "Group") as of December 31, 2015 and 2014, and the related consolidated income statements, statements of comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Yanzhou Coal Mining Company Limited and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated April 26, 2016 expressed an unqualified opinion thereon.

**/s/ Grant Thornton**

Beijing, People's Republic of China  
April 26, 2016

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**BOARD OF DIRECTORS AND SHAREHOLDERS**

**YANZHOU COAL MINING COMPANY LIMITED 兖州煤业股份有限公司**

(A joint stock company with limited liability established in the People's Republic of China)

We have audited the internal control over financial reporting of Yanzhou Coal Mining Company Limited and its subsidiaries (the "Group") as of December 31, 2015, based on criteria established in the 2013 *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in the 2013 *Internal Control — Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Group as of and for the year ended December 31, 2015, and our report dated April 26, 2016 expressed an unqualified opinion on those financial statements.

**/s/ Grant Thornton**

Beijing, People's Republic of China

April 26, 2016



YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

	NOTES	Year ended December 31,		
		2015 RMB'000	2014 RMB'000	2013 RMB'000
GROSS SALES OF COAL	7	32,875,951	58,539,353	54,444,843
RAILWAY TRANSPORTATION SERVICE INCOME		327,311	373,617	457,898
GROSS SALES OF ELECTRICITY POWER		598,608	241,490	332,125
GROSS SALES OF METHANOL		2,264,749	1,195,458	1,155,742
GROSS SALES OF HEAT SUPPLY		27,549	20,846	11,218
GROSS SALES OF EQUIPMENT MANUFACTURING		309,918	—	—
TOTAL REVENUE		<u>36,404,086</u>	<u>60,370,764</u>	<u>56,401,826</u>
TRANSPORTATION COSTS OF COAL	7	(2,078,902)	(2,291,594)	(2,024,196)
COST OF SALES AND SERVICE PROVIDED	8	(25,838,279)	(49,557,502)	(42,511,838)
COST OF ELECTRICITY POWER		(476,513)	(159,724)	(320,515)
COST OF METHANOL		(1,535,828)	(869,294)	(850,788)
COST OF HEAT SUPPLY		(13,353)	(11,236)	(6,709)
COST OF EQUIPMENT MANUFACTURING		<u>(307,600)</u>	<u>—</u>	<u>—</u>
GROSS PROFIT		6,153,611	7,481,414	10,687,780
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	9	(5,696,704)	(6,069,884)	(10,380,713)
SHARE OF PROFIT OF ASSOCIATES	27	502,364	310,604	233,897
SHARE OF LOSS OF JOINT VENTURES	30	(170,458)	(320,829)	(376,032)
OTHER INCOME	10	2,317,855	2,382,186	1,020,577
INTEREST EXPENSES	11	<u>(2,484,411)</u>	<u>(2,183,581)</u>	<u>(1,765,777)</u>
PROFIT (LOSS) BEFORE INCOME TAXES	13	622,257	1,599,910	(580,268)
INCOME TAXES	12	<u>(489,637)</u>	<u>(1,112,807)</u>	<u>394,815</u>
PROFIT (LOSS) FOR THE YEAR		<u>132,620</u>	<u>487,103</u>	<u>(185,453)</u>
Attributable to:				
Equity holders of the Company		164,459	766,158	777,368
Owners of perpetual capital securities	42	346,227	36,456	—
Non-controlling interests				
- Perpetual capital securities	42	140,593	82,079	—
- Other		<u>(518,659)</u>	<u>(397,590)</u>	<u>(962,821)</u>
		<u>132,620</u>	<u>487,103</u>	<u>(185,453)</u>
EARNINGS PER SHARE, BASIC AND DILUTED	16	<u>RMB 0.03</u>	<u>RMB 0.16</u>	<u>RMB 0.16</u>
EARNINGS PER ADS, BASIC AND DILUTED	16	<u>RMB 0.33</u>	<u>RMB 1.56</u>	<u>RMB 1.58</u>

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
Profit (Loss) for the year	132,620	487,103	(185,453)
Other comprehensive (loss) income (after income tax):			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sales investments:			
Change in fair value	38,336	76,549	5,283
Reclassification adjustments for amounts transferred to income statement(included in other income)	(193,408)	—	—
Deferred taxes	38,768	(19,137)	(1,321)
	(116,304)	57,412	3,962
Cash flow hedges:			
Cash flow hedge amounts recognized in other comprehensive income	(194,079)	(2,606,339)	(1,265,664)
Reclassification adjustments for amounts transferred to income statement (included in selling, general and administrative expenses)	284,075	1,297,843	(39,729)
Deferred taxes	16,487	394,986	395,395
	106,483	(913,510)	(909,998)
Share of other comprehensive income of associates	7,084	11,213	—
Share of other comprehensive income of joint ventures	94,865	—	—
Exchange difference arising on translation of foreign operations	(4,119,404)	(1,789,321)	(3,684,529)
Other comprehensive (loss) income for the year	(4,027,276)	(2,634,206)	(4,590,565)
Total comprehensive (loss) income for the year	(3,894,656)	(2,147,103)	(4,776,018)
Attributable to:			
Equity holders of the Company	(3,238,138)	(1,554,464)	(3,069,475)
Owners of perpetual capital securities	346,227	36,456	—
Non-controlling interests			
- Perpetual capital securities	140,593	82,079	—
- Other	(1,143,338)	(711,174)	(1,706,543)
	(3,894,656)	(2,147,103)	(4,776,018)

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	NOTES	At December 31,	
		2015 RMB'000	2014 RMB'000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Bank balances and cash	17	20,175,120	15,041,928
Term deposits	17	2,995,066	5,154,296
Restricted cash	17	407,711	275,981
Bills and accounts receivable	18	5,976,837	7,084,105
Long term receivables-due within one year	28	1,565,194	1,705,757
Royalty receivable	19	93,083	89,137
Inventories	20	1,852,333	1,470,480
Prepayments and other receivables	21	7,968,818	7,219,251
Prepaid lease payments	22	23,407	22,343
Derivative financial instruments	37	—	359
Tax recoverable		12,976	22,706
		41,070,545	38,086,343
Assets classified as held for sale	32	7,740,520	—
<b>TOTAL CURRENT ASSETS</b>		<b>48,811,065</b>	<b>38,086,343</b>
<b>NON-CURRENT ASSETS</b>			
Intangible assets	23	32,243,310	37,287,549
Prepaid lease payments	22	900,942	776,751
Property, plant and equipment	24	45,615,970	44,174,612
Goodwill	25	2,296,083	2,232,751
Investments in securities	26	944,410	388,764
Interests in associates	27	3,263,764	2,955,629
Interests in joint ventures	30	57,479	130,867
Restricted cash	17	—	53,870
Long term receivables-due after one year	28	247,339	302,517
Royalty receivable	19	875,444	909,927
Deposits made on investments	29	118,926	118,926
Deferred tax assets	40	7,097,143	5,679,608
<b>TOTAL NON-CURRENT ASSETS</b>		<b>93,660,810</b>	<b>95,011,771</b>
<b>TOTAL ASSETS</b>		<b>142,471,875</b>	<b>133,098,114</b>

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)

	NOTES	At December 31,	
		2015	2014
		RMB'000	RMB'000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Bills and accounts payable	33	4,207,366	4,037,204
Other payables and accrued expenses	34	9,009,307	8,736,690
Provision for land subsidence, restoration, rehabilitation and environmental costs	35	2,616,998	2,900,054
Amounts due to Parent Company and its subsidiary companies		190,150	190,408
Borrowings - due within one year	36	23,903,217	10,871,689
Long term payable and provision - due within one year	39	398,566	398,794
Derivative financial instruments	37	5,442	81,602
Tax payable		204,418	113,442
		<u>40,535,464</u>	<u>27,329,883</u>
Liabilities directly associated with assets classified as held for sale	32	1,520,831	—
<b>TOTAL CURRENT LIABILITIES</b>		<b>42,056,295</b>	<b>27,329,883</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings - due after one year	36	45,576,588	50,566,399
Deferred tax liabilities	40	7,823,565	7,554,413
Provision for land subsidence, restoration, rehabilitation and environmental costs	35	582,741	529,953
Long term payable and provision - due after one year	39	631,032	1,118,950
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>54,613,926</b>	<b>59,769,715</b>
<b>TOTAL LIABILITIES</b>		<b>96,670,221</b>	<b>87,099,598</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	41	4,918,400	4,918,400
Reserves	41	30,451,501	33,807,446
Equity attributable to equity holders of the Company		35,369,901	38,725,846
Owners of perpetual capital security	42	6,661,683	2,521,456
Non-controlling interests			
- Perpetual capital security	42	1,854,837	1,851,903
- Subordinated capital notes	43	3,102	3,102
- Other		1,912,131	2,896,209
<b>TOTAL EQUITY</b>		<b>45,801,654</b>	<b>45,998,516</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>142,471,875</b>	<b>133,098,114</b>

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital RMB'000 (note 41)	Share premium RMB'000	Future development fund RMB'000 (note 41)	Statutory common reserve fund RMB'000 (note 41)	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Cash flow hedge reserve RMB'000	Retained earnings RMB'000	Attributable to equity holders of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at January 1, 2013	4,918,400	2,981,002	4,796,004	4,975,378	(79,111)	67,598	(53,217)	27,923,980	45,530,034	3,190,096	48,720,130
Profit (loss) for the year	—	—	—	—	—	—	—	777,368	777,368	(962,821)	(185,453)
Other comprehensive income (loss):											
- Fair value change of available-for-sale investments	—	—	—	—	—	3,962	—	—	3,962	—	3,962
- Cash flow hedge reserve recognized	—	—	—	—	—	—	(697,568)	—	(697,568)	(212,430)	(909,998)
- Exchange difference arising on translation of foreign operations	—	—	—	—	(3,153,237)	—	—	—	(3,153,237)	(531,292)	(3,684,529)
Total comprehensive income (loss) for the year	—	—	—	—	(3,153,237)	—	—	777,368	(3,069,475)	(1,706,543)	(4,776,018)
Transactions with owners											
- Acquisition of Hao Sheng	—	—	—	—	—	—	—	—	—	2,401,737	2,401,737
- Increase of the registered capital of Hao Sheng	—	—	—	—	—	—	—	—	—	75,540	75,540
- Stamp duty arising from the restructuring of Australian subsidiaries	—	—	—	—	—	—	—	(71,140)	(71,140)	—	(71,140)
- Set up of Rizhao	—	—	—	—	—	—	—	—	—	147,000	147,000
- Appropriations to and utilization of reserves	—	—	(820,272)	535,945	—	—	—	284,327	(1,770,624)	(60,277)	(1,830,901)
- Dividends	—	—	—	—	—	—	—	(240,117)	(240,117)	(440,170)	(680,287)
- Acquisition of non-controlling interests	—	—	—	—	—	—	—	(1,797,554)	(2,081,881)	2,123,830	41,949
Total transactions with owners	—	—	(820,272)	535,945	—	—	—	(1,797,554)	(2,081,881)	2,123,830	41,949
Balance at December 31, 2013	4,918,400	2,981,002	3,975,732	5,511,323	(3,232,348)	71,560	(750,785)	26,903,794	40,378,678	3,607,383	43,986,061

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Attributable to equity holders of the Company										Non-controlling interests				
	Share capital RMB 000 (note 41)	Share premium RMB 000 (note 41)	Future development fund RMB 000 (note 41)	Statutory common reserve fund RMB 000 (note 41)	Translation reserve RMB 000	Investment revaluation reserve RMB 000	Cash flow hedge reserve RMB 000	Retained earnings RMB 000	Total RMB 000	Perpetual Capital Securities issued by the Company RMB 000 (note 42a)	Perpetual Capital Securities issued by a subsidiary RMB 000 (note 42b)	Subordinated Capital Notes RMB 000 (note 43)	Others RMB 000	Total RMB 000	
Balance at January 1, 2014	4,918,400	2,981,002	3,975,732	5,511,323	(3,232,348)	71,560	(750,785)	26,903,794	40,378,678	—	—	—	3,607,383	43,986,061	
Profit (loss) for the year	—	—	—	—	—	—	—	766,158	766,158	36,456	82,079	—	(397,590)	487,103	
Other comprehensive income (loss):															
- Fair value change of available-for-sale investments	—	—	—	—	—	57,412	—	—	57,412	—	—	—	—	57,412	
- Share of comprehensive income from associate	—	—	—	—	—	11,213	—	—	11,213	—	—	—	—	11,213	
- Cash flow hedge reserve recognized	—	—	—	—	—	—	(705,157)	—	(705,157)	—	—	—	(208,353)	(913,510)	
- Exchange difference arising on translation of foreign operations	—	—	—	—	(1,684,090)	—	—	—	(1,684,090)	—	—	—	(105,231)	(1,789,321)	
Total comprehensive income (loss) for the year	—	—	—	—	(1,684,090)	68,625	(705,157)	766,158	(1,554,464)	36,456	82,079	—	(711,174)	(2,147,103)	
Transactions with owners															
- Issuance of Subordinated Capital Notes	—	—	—	—	—	—	—	—	—	—	—	3,102	—	3,102	
- Issuance of perpetual capital securities	—	—	—	—	—	—	—	—	2,485,000	—	1,835,747	—	—	4,320,747	
- Distribution paid to holders of perpetual capital securities	—	—	—	—	—	—	—	—	—	—	(65,923)	—	—	(65,923)	
- Appropriations to and utilization of reserves	—	—	(2,316,285)	418,788	—	—	—	1,897,497	(98,368)	—	—	—	—	(98,368)	
- Dividends	—	—	(2,316,285)	418,788	—	—	—	1,799,129	(98,368)	2,485,000	1,769,824	3,102	—	4,159,558	
Total transactions with owners	—	—	(2,316,285)	418,788	—	—	—	1,799,129	(98,368)	2,485,000	1,769,824	3,102	—	4,159,558	
Balance at December 31, 2014	4,918,400	2,981,002	1,659,447	5,930,111	(4,916,438)	140,185	(1,455,942)	29,469,081	38,725,846	2,521,456	1,851,903	3,102	2,896,209	45,998,516	

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Attributable to equity holders of the Company										Non-controlling interests				
	Share capital RMB'000 (note 41)	Capital reserve RMB'000	Share premium RMB'000	Future development fund RMB'000 (note 41)	Statutory common reserve fund RMB'000 (note 41)	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Cash flow hedge reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Perpetual Capital Securities issued by the Company RMB'000 (note 42a)	Perpetual Capital Securities issued by a subsidiary RMB'000 (note 42b)	Subordinated Capital Notes RMB'000 (note 43)	Others RMB'000	Total RMB'000
Balance at January 1, 2015	4,918,400	—	2,981,002	1,659,447	5,930,111	(4,916,438)	140,185	(1,455,942)	29,469,081	38,725,846	2,521,456	1,851,903	3,102	2,896,209	45,998,516
Profit (loss) for the year	—	—	—	—	—	—	—	—	164,459	164,459	346,227	140,593	—	(518,659)	132,620
Other comprehensive income (loss):															
- Fair value change of available-for-sale investments	—	—	—	—	—	—	(116,304)	—	—	(116,304)	—	—	—	—	(116,304)
- Share of comprehensive income from associate	—	—	—	—	—	—	7,084	—	—	7,084	—	—	—	—	7,084
- Share of comprehensive income from joint ventures	—	—	—	—	—	—	73,995	—	—	73,995	—	—	—	20,870	94,865
- Cash flow hedge reserve recognized	—	—	—	—	—	—	—	98,687	—	98,687	—	—	—	7,796	106,483
- Exchange difference arising on translation of foreign operations	—	—	—	—	—	(3,463,859)	(2,200)	—	—	(3,466,059)	—	—	—	(653,345)	(4,119,404)
Total comprehensive income (loss) for the year	—	—	—	—	—	(3,463,859)	(37,425)	98,687	164,459	(3,238,138)	346,227	140,593	—	(1,143,338)	(3,894,656)
Transactions with owners															
- Issuance of Subordinated Capital Notes	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- Issuance of perpetual capital securities	—	—	—	—	—	—	—	—	—	3,964,000	—	—	—	—	3,964,000
- Distribution paid to holders of perpetual capital securities	—	—	—	—	—	—	—	—	—	(170,000)	—	(137,659)	—	—	(307,659)
- Increase capital to Zhongyin Financial	—	—	—	—	—	—	—	—	—	—	—	—	—	—	60,127
- Establishment of Ruifeng	—	—	—	—	—	—	—	—	—	—	—	—	—	—	98,000
- Appropriations to and utilization of reserves	—	—	—	(680,786)	22,392	—	—	—	658,394	—	—	—	—	—	1,133
- Share repurchased and not yet cancelled (Note 41)	—	(19,439)	—	—	—	—	—	—	—	(19,439)	—	—	—	—	(19,439)
- Dividends	—	—	—	—	—	—	—	—	(98,368)	(98,368)	—	—	—	—	(98,368)
Total transactions with owners	—	(19,439)	—	(680,786)	22,392	—	—	—	560,026	(117,807)	3,794,000	(137,659)	—	159,260	3,697,794
Balance at December 31, 2015	4,918,400	(19,439)	2,981,002	978,661	5,952,503	(8,380,297)	102,760	(1,357,255)	30,193,566	35,569,901	6,661,683	1,854,837	3,102	1,912,131	45,801,654

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS

	NOTES	Year ended December 31,		
		2015 RMB'000	2014 RMB'000	2013 RMB'000
<b>OPERATING ACTIVITIES</b>				
(Loss) Profit before income taxes	13	622,257	1,599,910	(580,268)
Adjustments for:				
Interest expenses		2,484,411	2,183,581	1,765,777
Interest income	10	(1,296,787)	(835,931)	(489,348)
Dividend income	10	(31,981)	(7,385)	(71,395)
Net unrealized foreign exchange loss(gain)		497,369	(359,665)	581,145
Depreciation of property, plant and equipment	24	3,742,576	3,078,755	3,124,953
Release of prepaid lease payments	13	21,334	18,888	18,728
Gain on sale of investment in securities	10	(204,331)	—	—
Bargain purchase	10	—	(147,993)	—
Gain on acquisition of additional interest in joint operation	10	(30,930)	—	—
Amortization of intangible assets	13	719,391	1,116,482	1,325,078
Provision (Reversal) of impairment loss on accounts receivable and other receivables, net	13	56,575	6,261	(742)
Provision (Reversal) of impairment loss on intangibles assets		—	(731,332)	2,052,238
Provision of impairment loss on goodwill	25	326,918	—	—
Provision of impairment loss on inventories		26,437	8,621	58,274
Reversal of impairment loss on inventories		(18,858)	—	—
Share of loss of joint ventures	30	170,458	320,829	376,032
Share of profit of associates	27	(502,364)	(310,604)	(233,897)
Loss on fair value change of contingent value rights shares liabilities		—	18,314	241,223
Gain on disposal of property, plant and equipment	13	(9,069)	(5,986)	(14,973)
Loss on disposal of intangible assets		—	—	4,400
Operating cash flows before movements in working capital		6,573,406	5,952,745	8,157,225
(Increase) Decrease in bills and accounts receivable		983,200	1,847,613	(1,722,004)
(Increase) Decrease in inventories		(426,852)	43,467	(264,844)
Movement in provision for land subsidence, restoration, rehabilitation and environmental cost		(198,029)	(381,325)	170,486
Increase in prepaid lease payment		(146,589)	(123,079)	—
Increase (Decrease) in prepayments and other current assets		185,814	(773,056)	(1,377,975)
Increase (Decrease) in bills and accounts payable		229,657	1,571,594	(3,187,931)
Increase (Decrease) in other payables and accrued expenses		112,304	(182,329)	(1,223,267)
Decrease in long-term payable and provision		(623,013)	(807,331)	(35,670)
Cash generated from operations		6,689,898	7,148,299	516,020
Income taxes paid		(1,556,305)	(2,219,435)	(1,755,881)
Interest paid		(2,553,742)	(1,815,292)	(1,624,380)
Interest received		1,269,505	814,714	478,572
Dividend received	10	31,981	7,385	71,395
Dividend received from associates		465,873	236,145	113,216
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>		<u>4,347,210</u>	<u>4,171,816</u>	<u>(2,201,058)</u>



YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS (continued)

	NOTES	Year ended December 31,		
		2015 RMB'000	2014 RMB'000	2013 RMB'000
<b>INVESTING ACTIVITIES</b>				
Decrease (Increase) in term deposits		2,152,436	(723,340)	(1,286,055)
(Increase) Decrease in restricted cash		(81,024)	(186,056)	43,748
Purchase of property, plant and equipment		(12,309,864)	(5,800,186)	(10,221,406)
Decrease (Increase) in long term receivables		73,994	(246,379)	(245,779)
(Increase) Decrease in deposit made on investments		—	3,000	(4,000)
Proceeds on disposal of property, plant and equipment		3,404,790	81,132	80,236
Investments in securities		(6,720)	(100,671)	(202)
Investment in securities of Qilu Bank		(782,948)	—	—
Proceeds from sale of investments in securities		445,073	15	—
Investment in an associate	27	(1,514,560)	(125,000)	—
Repayment from/(Advance to) an associate		1,250,000	(1,250,000)	—
Acquisition of Moolarben	48	(93,148)	—	—
Acquisition of Donghua	47	(586,354)	—	—
Acquisition of Ashton	46	—	(58,679)	—
Acquisition of Hao Sheng		—	—	(802,089)
Acquisition of Xintai		—	—	(680,287)
Purchase of intangible assets	23	(155,048)	(128,627)	(388,536)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(8,203,373)</b>	<b>(8,534,791)</b>	<b>(13,504,370)</b>
<b>FINANCING ACTIVITIES</b>				
Dividends paid		(98,368)	(98,368)	(1,770,624)
Proceeds from bank borrowings		12,910,157	8,072,750	21,103,061
Repayment of bank borrowings		(9,751,530)	(6,193,233)	(10,000,905)
Repayment of other borrowings		(17,522)	(209,774)	(2,057,376)
Proceeds from issuance of guaranteed notes		9,996,667	9,932,220	5,997,500
Proceeds from issuance of perpetual capital securities		3,964,000	4,320,747	—
Proceeds from issuance of subordinated capital notes		—	3,102	—
Repurchase of contingent value rights shares		—	(1,373,523)	—
Repayment of guaranteed notes		(5,761,761)	(5,995,833)	—
Proceeds from other borrowings		—	300,000	—
Payment of repurchase of shares	41	(19,439)	—	—
Distribution paid to holders of perpetual capital securities		(307,659)	(65,923)	—
Dividends paid to non-controlling interests of a subsidiary		—	—	(60,277)
Contribution from non-controlling interests		159,260	—	75,540
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>11,073,805</b>	<b>8,692,165</b>	<b>13,286,919</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>7,217,642</b>	<b>4,329,190</b>	<b>(2,418,509)</b>
<b>CASH AND CASH EQUIVALENTS, AT JANUARY 1</b>		<b>15,041,928</b>	<b>10,922,637</b>	<b>12,717,358</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES INCLUDED IN ASSETS HELD FOR SALE</b>		<b>233,430</b>	<b>(209,899)</b>	<b>623,788</b>
<b>CASH AND CASH EQUIVALENTS, AT DECEMBER 31, REPRESENTED BY BANK BALANCES AND CASH</b>		<b><u>20,175,120</u></b>	<b><u>15,041,928</u></b>	<b><u>10,922,637</u></b>

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. GENERAL

##### Organization and principal activities

Yanzhou Coal Mining Company Limited (the “Company”) is established as a joint stock company with limited liability in the People’s Republic of China (the “PRC”). In April 2001, the status of the Company was changed to that of a Sino-foreign joint stock limited company. The Company’s A shares are listed on the Shanghai Stock Exchange (“SSE”), its H shares are listed on The Stock Exchange of Hong Kong (the “SEHK”), and its American Depositary Shares (“ADS”, one ADS represents 10 H shares) are listed on the New York Stock Exchange, Inc. The addresses of the registered office and principal place of business of the Company are 298 Fushan South Road, Zoucheng, Shandong Province, PRC.

The Company operates eight coal mines, namely the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine, Dongtan coal mine, Jining II coal mine (“Jining II”), Jining III coal mine (“Jining III”), Beisu coal mine (“Beisu”) and Yangcun coal mine (“Yangcun”) as well as a regional rail network that links the eight mines with the national rail network. The Company’s parent and ultimate holding company is Yankuang Group Corporation Limited (the “Parent Company”), a state-owned enterprise in the PRC.

The principal activities of the Company’s subsidiaries, associates, joint ventures and joint operations are set out in notes 57, 27, 30 and 31 respectively.

As at December 31, 2015, the Company and all its subsidiaries (collectively referred to as the “Group”) had net current assets of RMB6,754,770,000 (2014: RMB10,756,460,000) and total assets less current liabilities of RMB100,415,580,000 (2014: RMB105,768,231,000).

##### Acquisitions and establishment of major subsidiaries

In 2006, the Company acquired 98% equity interest in Yankuang Shanxi Neng Hua Company Limited (“Shanxi Neng Hua”) and its subsidiaries (collectively referred as the “Shanxi Group”) from the Parent Company at cash consideration of RMB733,346,000. In 2007, the Company further acquired the remaining 2% equity interest in Shanxi Neng Hua from a subsidiary of the Parent Company at cash consideration of RMB14,965,000. The principal activities of Shanxi Group are to invest in heat and electricity, manufacture and sale of mining machinery and engine products, coal mining and the development of integrated coal technology.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 1. GENERAL (continued)

#### Acquisitions and establishment of major subsidiaries (continued)

Shanxi Neng Hua is an investment holding company, which holds 81.31% equity interest in Shanxi Heshun Tianchi Energy Company Limited (“Shanxi Tianchi”) and approximately 99.85% equity interest in Shanxi Tianhao Chemicals Company Limited (“Shanxi Tianhao”). In 2010, Shanxi Neng Hua acquired approximately 0.04% equity interest of Shanxi Tianhao at cash consideration of RMB14,000. The principal activities of Shanxi Tianchi are to exploit and sale of coal from Tianchi Coal Mine, the principal asset of Shanxi Tianchi. Shanxi Tianchi has completed the construction of Tianchi Coal Mine and commenced production by the end of 2006. Shanxi Tianhao is established to engage in the production of methanol and other chemical products, coke production, exploration and sales. The construction of the methanol facilities by Shanxi Tianhao commenced in March 2006 and it has commenced production in 2008.

In 2004, the Company acquired 95.67% equity interest in Yanmei Heze Company Limited (“Heze”) from the Parent Company at cash consideration of RMB584,008,000. The principal activities of Heze are to exploit and sale of coal in Juye coal field. The equity interests held by the Company increased to 96.67% after the increase of the registered capital of Heze in 2007. The equity interests held by the Company increased to 98.33% after the increase of the registered capital of RMB1.5 billion in 2010.

The Company originally held 97% equity interest in Yanzhou Coal Yulin Power Chemical Co., Ltd. (“Yulin”). The Company acquired the remaining 3% equity interest and made further investment of RMB600,000,000 in Yulin in 2008.

In February 2009, the Company acquired a 74% equity interest in Shandong Hua Ju Energy Company Limited (“Hua Ju Energy”) from the Parent Company at a consideration of RMB593,243,000. Hua Ju Energy is a joint stock limited company established in the PRC with the principal business of the supply of electricity and heat by utilizing coal gangue and coal slurry produced from coal mining process. In July 2009, the Company entered into acquisition agreements with three shareholders of Hua Ju Energy, pursuant to which, the Company agreed to acquire 21.14% equity interest in Hua Ju Energy at a consideration of RMB173,007,000.

In 2009, the Company entered into a binding scheme implementation agreement with Felix Resources Limited (“Felix”), a corporation incorporated in Australia with shares listed on the Australian Securities Exchange (“ASX”), to acquire all the shares of Felix in cash of approximately AUD3,333 million. The principal activities of Felix are exploring and extracting coal resources, operating, identifying, acquiring and developing resource related projects that primarily focus on coal in Australia. This acquisition was completed in 2009. In 2011, Felix Resources Limited was renamed as Yancoal Resources Limited (“Yancoal Resources”).

In 2009, the Company invested RMB500 million to set up a wholly-owned subsidiary located in Inner Mongolia, Yanzhou Coal Ordos Neng Hua Company Limited (“Ordos”). Ordos is a limited liability company incorporated in the PRC with the objectives of production and sale of methanol and other chemical products. In 2011, the Company invested additional equity in the registered capital of Ordos of RMB2.6 billion. The Company also acquired Yiginhuoluo Qi Nalin Tao Hai Town An Yuan Coal Mine (“An Yuan Coal Mine”) at a consideration of RMB1,435,000,000.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 1. GENERAL (continued)

#### Acquisitions and establishment of major subsidiaries (continued)

In 2010, the Company acquired 100% equity interest of Inner Mongolia Yize Mining Investment Co., Ltd (“Yize”) and other two companies at a consideration of RMB190,095,000. The main purpose of this acquisition is to facilitate the business of methanol and other chemical products in Inner Mongolia Autonomous Region.

In 2011, Ordos acquired 80% equity interest of Inner Mongolia Xintai Coal Mining Company Limited (“Xintai”) at a consideration of RMB2,801,557,000 from an independent third party. Xintai owns and operates Wenyu Coal Mine in Inner Mongolia. The principal activities of Xintai are coal production and coal sales. On September 30, 2013, Ordos acquired remaining 20% of non-controlling interests of Xintai with consideration of RMB680,287,000.

In 2011, the Company acquired 100% equity interests in Syntech Holdings Pty Ltd and Syntech Holdings II Pty Ltd (collectively “Syntech”) at a cash consideration of AUD208,480,000. The principal activities of Syntech include exploration, production, sorting and processing of coal. The acquisition was completed on August 1, 2012.

The Company entered into a sales and purchases agreement on September 27, 2011 to acquire 100% equity interests in both Wesfarmers Premier Coal Limited (“Premier Coal”) and Wesfarmers Char Pty Ltd (“Wesfarmers Char”) at a consideration of AUD313,533,000. The acquisition was completed on December 30, 2011. Premier Coal is mainly engaged in the exploration, production and processing of coal. Wesfarmers Char is mainly engaged in the research and development of the technology and procedures in relation to processing coal char from low rank coals.

In 2011, the Company invested USD2.8 million to set up a wholly-owned subsidiary, Yancoal International (Holding) Co., Limited (“Yancoal International”). Yancoal International was established in Hong Kong to act as a platform for overseas assets and business management. Yancoal International has four subsidiaries, namely Yancoal International Trading Co., Limited, Yancoal International Technology Development Co., Limited, Yancoal International Resources Development Co., Limited and Yancoal Luxembourg Energy Holding Co., Limited (“Yancoal Luxembourg”). Yancoal Luxembourg established a wholly-owned subsidiary, Yancoal Canada Resources Co., Ltd (“Yancoal Canada”) with USD290 million as investment. The Company acquired, at a total consideration of USD260 million, 19 potash mineral exploration permits in the Province of Saskatchewan, Canada through Yancoal Canada. The permit transfer registrations were completed on September 30, 2011.

On December 22, 2011 and March 5, 2012, the Company, Yancoal Australia Limited (“Yancoal Australia”) and Gloucester Coal Limited (“Gloucester”), a corporation incorporated in Australia whose shares are listed on the ASX, entered into the merger proposal deed in respect of a proposal for the merger of Yancoal Australia and Gloucester. Yancoal Australia acquired the entire issued share capital of Gloucester at a consideration of a combination of 218,727,665 ordinary shares of Yancoal Australia and 87,645,184 contingent value rights shares (“CVR shares”). Following the completion of the merger, Yancoal Australia is separately listed on the ASX, replacing the listing position of Gloucester. The merger was completed on June 27, 2012. The ordinary shares and CVR shares of Yancoal Australia was listed on the ASX on June 28, 2012. On June 22, 2012, according to the merger agreement, the equity interest in Syntech and Premier Coal held by Yancoal Australia has been transferred to Yancoal International.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 1. GENERAL (continued)

#### Acquisitions and establishment of major subsidiaries (continued)

On April 23, 2012, the Company entered into an assets transfer agreement with the Parent Company and its subsidiary to purchase the target assets from the Parent Company and its subsidiary at a consideration of RMB824,142,000 to acquire all the assets and liabilities of Beisu and Yangcun and their equity investments in Zoucheng Yankuang Beisheng Industry & Trading Co., Ltd (“Beisheng Industry and Trade”), Shandong Shengyang Wood Co., Ltd (“Shengyang Wood”) and Jining Jiemei New Wall Materials Co., Ltd (“Jiemei Wall Materials”). Beisu and Yangcun mainly engaged in the production and exploration of PCI coal and thermal coal. The acquisition was completed on May 31, 2012.

In 2012, the Company entered into an agreement for investment in Shandong Coal Trading Centre Co., Limited (“Trading Centre”) with two independent parties. The Company contribute RMB51,000,000 which represents 51% of the equity interest in Trading Centre. The principal activities of Trading Centre is to provide coal trading and relevant advisory services. Trading Centre has not yet commenced any business.

In 2010, the Company entered into a co-operative agreement with three independent third parties to acquire 51% equity interest of Inner Mongolia Hao Sheng Coal Mining Limited (“Hao Sheng”) and obtained the mining rights of the Shilawusu Coal Field (“the mining right”) in the name of Hao Sheng. From 2011 to 2013, the Company entered into agreements with contract parties to further acquire equity interest in Hao Sheng and increase Hao Sheng’s registered capital. Upon completion of these agreements during the period, the Company owns 74.82% equity interest in Hao Sheng with total consideration of RMB 7,136,536,000. During the year ended December 31, 2014, the Company made additional contribution of RMB 224,460,000 in proportionate its equity interest. During the year, the Company made additional contribution of RMB137,420,000 to registered capital and the shareholding increased to 77.75%. As at December 31, 2015, Hao Sheng has not commenced any business.

In 2012, the Company entered into a cooperation agreement with two independent third parties to set up a company, Shandong Yanmei Rizhao Port Coal Storage and Blending Co., Ltd. (“Rizhao”), to act as a coal blending, storage and distribution base in Rizhao Port. Upon completion of registration procedures in 2013, the Company contributed RMB153,000,000, which represents 51% equity interest of Rizhao.

In 2014, the Company entered into a co-operative agreement with Yancoal International and contributed RMB500,000,000 to set up Zhongyin Financial Leasing Company Limited (“Zhongyin Financial”) in Shanghai Pilot Free Trade Zone, to provide finance lease, lease consultation and guaranteed and commercial insurance service for finance lease business. The registration process was completed on May 20, 2014. In January 2015, the Company entered additional contribution agreement with Yancoal International and a third party, Shandong Yongzheng Investment development Co., Ltd. The additional contribution of RMB1,560,000,000 was made to registered capital. The registration completed on July 14, 2015 and the shareholding of the Company decreased from 100% to 97%.

In 2014, the Company invested RMB300,000,000 to set up a wholly-owned subsidiary of Shandong Zhongyin Logistics & Trade Company Limited (“Zhongyin Logistics”), mainly engaged in the business of sales of coal and procurement of coal mining machinery and equipment parts.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 1. GENERAL (continued)

In 2014, the Company invested RMB10,000,000 to set up a wholly-owned subsidiary of Duanxin Investment Holding (Beijing) Company Limited (“Duanxin”), mainly engaged in the business of consultancy service of operation management and investment management. During the year, the Company made additional contribution of RMB800,000,000 to registered capital without any change in shareholding. As at the end of the reporting period, Duanxin has not yet commenced any business.

On July 27, 2015, the Company acquired 100% equity interest of Yankuang Donghua Heavy Industry Limited (“Donghua”) at a consideration of RMB676,000,000 from the Parent Company. Donghua owns five subsidiaries, the principal activities of Donghua are manufacturing of comprehensive coal mining and excavating equipment.

In August 2015, a subsidiary of Donghua, Yankuang Group Jintong Rubber Company Limited (“Jintong”) entered into a cooperation agreement with a related company, Yankuang Overseas Energy Development Co., Ltd to set up a company, Yankuang Jintong Latin American Co., Ltd (“Jintong Latin”), mainly engaged in the business of international trading of rubber products and the relevant technical advisory services. Upon completion of registration procedures, the Company contributed RMB1,180,000 (US\$183,600), which represents 51% equity interest of Jintong Latin.

On July 14, 2015, the Company invested RMB200,000,000 to set up a wholly-owned subsidiary of Shandong Duanxin Supply Chain Management Co., Ltd (“Supply Chain”), mainly engaged in the business of transportation and storage service.

On December 7, 2015, the Company entered into a cooperation agreement with an independent third party, Qingdao Shiji Rui Feng Group Co., Ltd to set up a company, Qingdao Zhongyin Ruifeng International Trading Co., Ltd (“Ruifeng”), mainly engaged in the business of international trading of coal products, steel products and machinery. Upon completion of registration procedures, the Company contributed RMB102,000,000, which represents 51% equity interest of Ruifeng.

### 2. BASIS OF PREPARATION

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

The consolidated financial statements as presented in Renminbi (“RMB”), which is also the functional currency of the Company.

The consolidated financial statements were approved and authorized for issue by the Board of Directors on April 26, 2016.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 3. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following amended standards ("amended IFRSs") applicable to the Group issued by the International Accounting Standards Board (the "IASB"), which are relevant to the Group and effective for the Group's financial year beginning on January 1, 2015.

Amendments to IFRSs	<i>Annual Improvements to IFRSs 2010-2012 Cycle</i>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2011-2013 Cycle</i>

Other than as noted below, the adoption of the amended IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

#### *Annual Improvements to IFRSs 2010 – 2012 and 2011 – 2013 Cycles*

The amendments contained in these two cycles of annual improvements set out amendments to a number of IFRSs. Other than those that are relevant to the Group, the adoption of these amendments has no material impact on the Group's consolidated financial results or positions.

Amendments to IFRS 8 "Operating Segments" require disclosures of the judgments made in identifying the reportable segment when operating segments have been aggregated and clarifies that reconciliation between the total reporting segments' assets and the entity's assets is required only if the segment assets are regularly reported to the chief operating decision maker. The amendments do not have any impact on the Group's operating segment after directors' assessment.

Amendments to IAS 24 "Related Party Disclosures" amends the definition of a 'related party' to include 'management entities' that provide key management personnel services to the reporting entity, requires the disclosure of the amounts recognised as a service fee to a separate management entity for the provision of the key management personnel services and provides a relief so that disclosure of components of the compensation to key management personnel where is paid via a management entity is not required. The amendments do not have any impact on the Group's related party disclosures as the Group did not pay any service fee to a separate management entity for the provision of the key management personnel services.

#### Issued but not yet effective IFRSs

At the date of authorisation of these consolidated financial statements, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended IFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended IFRSs are not expected to have a material impact on the Group's financial statements.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 3. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

#### Issued but not yet effective IFRSs (continued)

##### IFRS 9 (2014) “Financial instruments”

The release of IFRS 9 “Financial Instruments” (2014) represents the completion of the project to replace IAS 39. The new standard introduces extensive changes to IAS 39’s guidance on the classification and measurement of financial assets and introduces a new ‘expected credit loss’ model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The directors have started to assess the impact of IFRS 9 but are not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

- the classification and measurement of the Group’s financial assets will need to be reviewed based on the new criteria that considers the assets’ contractual cash flows and the business model in which they are managed
- an expected credit loss-based impairment will need to be recognised on the Group’s bills and accounts receivable (see note 18), unless classified as at fair value through profit or loss in accordance with the new criteria.
- it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss unless the Group makes an irrevocable designation to present them in other comprehensive income.
- if the Group continues to elect the fair value option for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to the Group’s own credit risk.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018.

##### IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 “Revenue”, IAS 11 “Construction Contracts”, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The directors have started to assess the impact of IFRS 15 but are not yet in a position to provide quantified information.



## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 3. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

#### Issued but not yet effective IFRSs (continued)

##### IFRS 16 “Lease”

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognised in respect of all leases. In contrast, the Standard does not include significant changes to the requirements for accounting by lessors. The Standard supersedes IAS 17 Leases and its associated interpretative guidance. It is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted for entities that have also adopted IFRS 15 Revenue from Contracts with Customers. The Group is yet to assess IFRS 16’s full impact.

##### Amendments to IFRS 11 Joint Arrangements

These amendments provide guidance on the accounting for acquisitions of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combinations accounting in IFRS 3 ‘Business Combinations’ and other IFRSs except where those principles conflict with IFRS 11. Acquisitions of interests in joint ventures are not impacted by this new guidance.

The amendments are effective for reporting periods beginning on or after January 1, 2016.

### 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are stated at fair value. The accounting policies are set out below.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31, each year.

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Basis of consolidation (continued)*

The Group includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounting for within equity. Contingent consideration that is classified as a financial liability is remeasured at subsequent reporting dates at fair value with corresponding gain or loss being recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Interest in associates

An associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

In consolidated financial statements, an investment in an associate is initially recognised at cost and subsequently accounted for using the equity method.

Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate or joint venture's net assets less any identified impairment loss, unless it is classified as held for sale. The profit or loss for the year includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associate recognised for the year. The Group's other comprehensive income for the year includes its share of the associate's other comprehensive income for the year.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associates except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in associates. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment and the reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

A joint operation is an arrangement in which the Group has joint control, whereby the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions relating about relevant activities require the unanimous consent of the parties sharing control.

Joint ventures are accounted for using the equity method and the details of equity method of accounting have been set out in the accounting policy for interests in associates. When a group entity transacts with a joint venture of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

When Group entity undertakes its activities under joint operations, the Group as a joint operator recognises its direct right to, and its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under appropriate headings.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Assets classified as held for sales

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale or loss of control transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale or disposal in its present condition subject only to terms that are usual and customary for sales or disposals of such assets (or disposal group) and the transaction is highly probable. Management must be committed to the transaction, which should be expected to qualify for recognition as a completed transaction within one year from the date of classification.

When the Group is committed to a sale plan or other transaction involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

Sales of goods (including coal, methanol and equipment manufacturing) are recognized upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Service income such as coal railway transportation and electricity and heat supply is recognized when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Dividend income from investments is recognized when the shareholders' rights to receive payments have been established.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Intangible assets (other than goodwill)

##### *Intangible assets acquired separately*

Intangible assets acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

##### *Internally-generated intangible assets – research and development expenditure*

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognized only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortized on a straight line basis over its useful life. Expenditure incurred on projects to develop new products is capitalized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development.

##### *Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

#### (i) Mining reserves

Mining reserves represent the portion of total proven and probable reserves in the mine of a mining right. Mining reserves are amortized over the life of the mine on a unit of production basis of the estimated total proven and probable reserves or the Australia Joint Ore Reserves Committee (“JORC”) reserves for the Group’s subsidiaries in Australia. Changes in the annual amortization rate resulting from changes in the remaining reserves are applied on a prospective basis from the commencement of the next financial year.

#### (ii) Mining resources

Mining resources represent the fair value of economically recoverable reserves (excluding the portion of total proven and probable reserves of a mining right i.e. does not include the above mining reserves) of a mining right (Details are set out in the accounting policy of exploration and evaluation expenditure). When production commences, the mining resources for the relevant areas of interest are amortized over the life of the area according to the rate of depletion of the economically recoverable reserves.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each separately identifiable area of interest which is at individual mine level.

Exploration and evaluation expenditure comprises costs that are directly attributable to :

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatments methods; and/or
- Compiling pre-feasibility and feasibility studies.

These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors.

Exploration expenditure relates to the initial search for deposits with economic potential. Expenditure on exploration activity is not capitalized.

Evaluation expenditure relates to a detailed assessment of deposits or other projects that have been identified as having economic potential. Capitalization of evaluation expenditure commences when there is a high degree of confidence that the Group will determine that a project is commercially viable, i.e. the project will provide a satisfactory return relative to its perceived risks, and therefore it is considered probable that future economic benefits will flow to the Group.

Exploration and evaluation expenditure incurred is accumulated in respect of each separately identifiable area of interest which is at individual mine level. These costs are only carried forward where the right of tenure for the area of interest is current and to the extent that they are expected to be recouped through successful development and commercial exploitation, or alternatively, sale of the area, or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

The carrying amount of exploration and evaluation assets is assessed for impairment when facts or circumstances suggest the carrying amount of the assets may exceed their recoverable amount.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Accumulated costs in relation to an abandoned area are written-off in full in the period in which the decision to abandon the area is made.

Capitalized exploration and evaluation expenditure considered to be tangible is recorded as a component of property, plant and equipment. Otherwise, it is recorded as an intangible asset. Exploration and evaluation expenditure acquired in a business combination are recognized at their fair value at the acquisition date (the fair value of potential economically recoverable reserves at the acquisition date which is shown as "Mining resources").



## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Exploration and evaluation expenditure (continued)

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable (i.e. when proved reserves of coal are determined and development is approved by management), the exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining reserves or property, plant and equipment. When production commences, the accumulated costs for the relevant area of interest are amortized over the life of the area according to the rate of depletion of the economically recoverable reserves.

On reclassification, the carrying amounts of exploration and evaluation assets are also reviewed and, where appropriate, written down to their recoverable amount.

#### Prepaid lease payments

Prepaid lease payments represent land use rights under operating lease arrangement and are stated at cost less accumulated amortization and accumulated impairment losses.

#### Property, plant and equipment

Property, plant and equipment, other than construction in progress and freehold land, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost of items of property, plant and equipment, other than construction in progress and freehold land, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method or unit of production method.

Construction in progress represents property, plant and equipment under construction for production or for its own use purposes. Construction in progress is carried at cost less any impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation commences when the assets are ready for their intended use.

Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized immediately in the consolidated income statement.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Impairment other than goodwill*

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets and intangible assets with finite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset (determined at the higher of its fair value less costs of disposal and its value in use) is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with an indefinite useful life will be tested for impairment annually.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Recoverable amount is the higher of fair value less costs of disposal and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as an income immediately.

For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit) to which the mining activity (mining complex level) is attributed. Management monitors and manages operations at the mining complex level to identify cash-generating streams.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

**Goodwill arising on acquisitions prior to January 1, 2005 (transition to new IFRS)**

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before January 1, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

The Group has discontinued amortization from January 1, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

**Goodwill arising on acquisitions on or after January 1, 2005**

Goodwill arising on an acquisition of a business for which the agreement date is on or after January 1, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Goodwill is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment is recognized immediately in the consolidated income statement and is not subsequently reversed.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and other financial institution and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the preparation of consolidated cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

#### Inventories

Inventories of coal, methanol and equipment are stated at the lower of cost and net realizable value. Cost, which comprises direct materials and, where applicable, direct labour and overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realizable value represents the estimated selling price less all further costs to completion and costs to be incurred in selling, marketing and distribution.

Inventories of auxiliary materials, spare parts and small tools expected to be used in production are stated at weighted average cost less allowance, if necessary, for obsolescence.

#### Overburden in advance

Overburden in advance comprises mining stripping (waste removal) costs both during the development and production phase of the Group's operations.

When stripping costs are included in the development phase of a mine before the production phase commences (development stripping). Such expenditure is capitalised as part of the cost of constructing the mine if it can be demonstrated that it is probable that future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of the ore body for which access has been improved. The stripping assets subsequently amortized over its useful life using a units of production method, in accordance with the policy applicable to mine properties. The capitalisation of development stripping costs ceases when the mine/component is commissioned and ready for use as intended by management.

Waste development costs incurred in the production phase creates two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and the benefit is improved access to ore to be mined in the future, the costs are recognised as a stripping activity asset in mine properties.

If the costs of the inventory produced and the stripping asset are not separately identifiable, the allocation is undertaken based on waste-to-ore stripping ratio for the particular ore component concerned. If mining of waste in a period occurs in excess of the expected life-of-component average waste-to-ore strip ratio, the excess is recognised as part of the stripping asset. Where mining occurs at or below the expected life-of-component stripping ratio in a period, the entire production stripping cost is allocated to the cost of the ore inventory produced.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Overburden in advance (continued)

Amortization is provided on the units-of-production method over the life of the identified component of orebody. The units-of-production method results in an amortization charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves).

Stripping costs that do not satisfy the asset recognition criteria are expensed.

#### Taxation

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, interest in associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - (i) the same taxable entity; or
  - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Certain of the Company's wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the tax consolidated group recognizes its own deferred tax assets and liabilities, except where the deferred tax assets relate to unused tax losses and credits, in which case the Australian subsidiaries recognizes the assets. Australian subsidiaries have entered into a tax sharing agreement whereby each company of Australian subsidiaries contributes to the income tax payable in proportion to their contribution to the profit before tax of the tax consolidated group. The tax consolidated group has also entered into a tax funding agreement whereby each entity in Australian subsidiaries group can recognize their balance of the current tax assets and liabilities through inter-entity accounts.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Land subsidence, restoration, rehabilitation and environmental costs

One consequence of coal mining is land subsidence caused by the resettlement of the land above the underground mining sites. Depending on the circumstances, the Group may relocate inhabitants from the land above the underground mining sites prior to mining those sites or the Group may compensate the inhabitants for losses or damages from land subsidence after the underground sites have been mined. The Group may also be required to make payments for restoration, rehabilitation or environmental protection of the land after the underground sites have been mined.

An estimate of such costs is recognized in the period in which the obligation is identified and is charged as an expense in proportion to the coal extracted. At each balance sheet date, the Group adjusts the estimated costs in accordance with the actual land subsidence status. The provision is also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the undepreciated capitalised cost of any related assets, in which case the capitalised cost is reduced to nil and remaining adjustment is recognized in the income statement. Changes to the capitalised cost result in an adjustment to future depreciation and financial charges.

#### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values of the minimum lease payments of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as an obligation under finance leases.

Each lease payment is allocated between liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The finance lease liabilities are included in current and non-current borrowings. The finance charges are expensed in the income statement over the lease periods so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets accounted for as finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Provisions and contingent liabilities

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

All other borrowings costs are recognized as expenses in the period in which they are incurred.

#### Foreign currencies

In the individual financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e., the currency of the primary environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise.



## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currencies (continued)

Exchange differences on monetary items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

In the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

#### Government grants

Government grants are recognized as income over the periods necessary to match them with the related costs. If the grants do not relate to any specific expenditure incurred by the Group, they are reported separately as other income. If the grants subsidize an expense incurred by the Group, they are deducted in reporting the related expense. Grants relating to depreciable assets are presented as a deduction from the cost of the relevant asset.

#### Annual leave, sick leave and long service leave

Benefits accruing to employees in respect of wages and salaries, annual leave and sick leave are included in trade and other payables. Related on-costs are also included in trade and other payables as other creditors. Long service leave is provided for when it is probable that settlement will be required and it is capable of being measured reliably.

Employee benefits expected to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the balance sheet date.

#### Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as expenses when the employees render the services entitling them to the contributions.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Financial instruments*

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

#### **Financial assets**

The Group's accounting policies for financial assets other than investments in subsidiaries, associates and joint ventures are set out below.

Financial assets are classified into the following categories:

- financial assets at fair value through profit or loss
- loans and receivables
- available-for-sale financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including bank balances and cash, term deposits, restricted cash, bills and accounts receivable, other current assets and long-term receivables) are subsequently measured at amortized cost using the effective interest method, less any identified impairment loss.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss included financial assets held for trading and financial assets designated as fair value through profit or loss upon initial recognition. Financial assets are classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Financial instruments (continued)*

##### **Financial assets (continued)**

##### *Financial assets at fair value through profit or loss (continued)*

Royalty receivable is remeasured based on sales volume, price changes, foreign currency exchange rates and expected future cash flows at each balance sheet date. The gain or loss arising from the change in fair value of royalty receivable is recognized in profit or loss. Royalty receivable is reduced by cash receipts and decreases with time. Since the contract is long term, the unwinding discount (to reflect time value of money) is recognized in interest income.

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized initially in other comprehensive income and accumulated in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

##### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the debtor will enter bankruptcy or financial re-organization.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Financial instruments (continued)*

*Impairment of financial assets (continued)*

For certain categories of financial asset, such as trade and bills receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For available-for-sale equity investments carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables and other receivables, where the carrying amounts are reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade and bills receivables and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized initially in other comprehensive income and accumulated in equity.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Financial instruments (continued)*

##### **Financial liabilities and equity**

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### *Financial liabilities*

The Group's financial liabilities including bills and accounts payables, other payables, amounts due to Parent Company and its subsidiary companies, finance lease liabilities, guaranteed notes and bank and other borrowings which are initially recognised at fair value and subsequently measured at amortized cost, using the effective interest method and financial liabilities at fair value through profit or loss.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at initial recognition as at fair value through profit and loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

#### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Perpetual capital securities and subordinated capital notes issued by the Group, which includes no contractual obligation for the Group to deliver cash or another financial asset to the holders or to exchange financial assets or financial liabilities with the holders under conditions that are potentially unfavourable to the Group, are classified as equity instruments and are initially recorded at the proceeds received.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Financial instruments (continued)*

##### **Derecognition of financial assets and financial liabilities**

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets or, the financial assets has been transferred, although the company has neither transferred nor retained substantially all the risk and rewards of ownership of the financial assets, but the Company give up control of the financial assets.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Financial instruments (continued)*

**Accounting for derivative financial instruments and hedging activities**

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (i) hedges of the fair value of recognized assets or liabilities (fair value hedge); and (ii) hedges of highly probable forecast transactions (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 37. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized initially in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognized immediately in the profit and loss. Amounts accumulated in equity are recognized in the profit and loss as the underlying hedged items are recognized.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss.

(ii) Derivatives that do not qualify for hedge accounting and those not designated as hedging instruments

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting and those not designated as hedges are recognized immediately in the profit or loss.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Related Parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (1) has control or joint control over the Group;
  - (2) has significant influence over the Group; or
  - (3) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (1) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);
  - (3) The entity and the Group are joint ventures of the same third party;
  - (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (6) The entity is controlled or jointly controlled by a person identified in (a); or
  - (7) A person identified in (a)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.



## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 5. ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### *Depreciation of property, plant and equipment*

The cost of mining structures (note 24) is depreciated using the unit of production method based on the estimated production volume for which the structure was designed. The management exercises their judgment in estimating the useful lives of the depreciable assets and the production volume of the mine. The estimated coal production volumes are updated at regular intervals and have taken into account recent production and technical information about each mine. These changes are considered a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation rates. Estimates of the production volume are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information.

#### *Amortization of assets*

Mining reserve and mining resources (note 23) are amortized on a straight line basis or unit of production basis over the shorter of their useful lives and the contractual period. The expensing of overburden removal costs is based on saleable coal production over estimated economically recoverable reserves. The useful lives are estimated on the basis of the total proven and probable reserves of the mine. Proven and probable mining reserve estimates are updated at regular intervals and have taken into account recent production and technical information about each mine.

#### *Provision for land subsidence, restoration, rehabilitation and environmental costs*

The provision (note 35) is reviewed regularly to verify that it properly reflects the remaining obligation arising from the current and past mining activities. Provision for land subsidence, restoration, rehabilitation and environmental costs are determined by the management based on their best estimates of the current and future costs, latest government policies and past experiences.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 5. ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

#### *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at December 31, 2015, the carrying amount of goodwill is RMB2,296,083,000 (2014: RMB2,232,751,000). During the year ended December 31, 2015, the impairment loss on goodwill amounted to RMB326,918,000 (2014: nil) was recognised by the Group and details are set out in note 25.

Cash flow projections during the budget period for each of the above units are based on the budgeted revenue and expected gross margins during the budget period and the raw materials price inflation during the budget period. Expected cash inflows/outflows have been determined based on past performance and management's expectations for the market development.

#### *Estimated impairment of property, plant and equipment*

When there is an impairment indicator, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise. In estimating the future cash flows, the management have taken into account the recent production and technical advancement. As prices and cost levels change from year to year, the estimate of the future cash flow also changes. Notwithstanding the management has used all the available information to make their impairment assessment, inherent uncertainty exists on conditions of the mine and of the environment and actual written off may be higher than the amount estimated. As at December 31, 2015, the carrying amounts of property, plant and equipment is approximately RMB45,615,970,000 (2014: RMB44,174,612,000). During the year ended December 31, 2015, no property, plant and equipment was written off as expenses (2014: nil; 2013: nil). In addition, during the year ended December 31, 2015, no impairment loss on property, plant and equipment (2014: nil; 2013: nil) was recognized by the Group and the details of impairment are set out in note 24.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 5. ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

#### *Estimated impairment of mining reserves*

When there are indications of impairment, the estimate of future cash flows was taken into consideration. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. When actual future cash flows are less than expected, a material impairment loss may arise. In estimating future cash flows, management takes into account recent production and technical advancements. As price and cost levels change from year to year, the estimate of future cash flows also changes. Notwithstanding that management has considered all the available information in making their impairment assessment, inherent uncertainty exists as to the conditions of mines and the environment, and actual write-offs may be higher than the estimated amounts.

The recoverable amount of cash generating units is assessed by management at the operating segment level. Business performance is reviewed by management on a mine by mine basis and each mine is considered to be a separate cash generating unit. The recoverable amount of each cash generating unit at December 31, 2015 was determined using the value in use method.

Value in use has been determined using a discounted cash flow model and key assumptions include coal prices, foreign exchange rates, production and capital costs, discount rate and coal reserves and resources. In determining the value assigned to each key assumption, management has used external sources of information and utilized the expertise of external and/or internal consultants and experts to validate entity specific assumptions such as coal reserves and resources.

Based on the impairment review, the recoverable amounts of coal reserves of Moolarben and Stratford & Duralie, both of which are coal mines of Yancoal Australia, were determined to be above than the carrying amounts and hence resulting with no impairment loss to be recognised. The cash flow forecast used assumed an average long term real coal prices of US\$55 – US\$166 per tonne (2014: US\$76 – US\$184 per tonne), AUD/US\$ exchange rate of \$0.73 without any significant fluctuation over the next five years (2014: decline from US\$0.82 to US\$0.78) and a post-tax discount rate of 10.5% (2014: 11%). Production and capital costs were based on the estimate of forecasted geological conditions, stage of existing plant and equipment and future production levels. The recoverable amount is also dependent on the life of mines which is based on the annual coal production forecast.

#### *Allowance for doubtful debts*

The Group determines the provision for impairment on bills and accounts receivable (Note 18) and other receivables (Note 21). This estimate is based on the credit history of the customers and the current market condition. The management reassesses the adequacy of provision on a regular basis by reviewing the individual account based on credit quality and past credit history, ongoing relationship with the Group and any prior knowledge of debtor insolvency or other credit risk which might not be easily accessible public information and market volatility might bear a significant impact which might not be easily ascertained.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 5. ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

#### *Exploration and evaluation expenditure*

Under the Group's accounting policy, exploration expenditure is not capitalized. Evaluation expenditure is capitalized when there is a high degree of confidence that the Group will determine that a project is commercially viable and therefore it is considered probable that future economic benefits will flow to the Group.

There are occasions when the Group concludes that the asset recognition criteria are met at an earlier stage than approval to proceed. In these cases, evaluation expenditure is capitalised if there is a high degree of confidence that the Group will determine the project is commercially viable. The Group's view is that a high degree of confidence is greater than "more likely than not" (that is greater than 50 per cent certainty) and less than "virtually certain" (that is less than 90 per cent certainty). Determining whether there is a high degree of confidence that the Group will determine that an evaluation project is commercially viable requires a significant degree of judgment and assessment of all relevant factors such as the nature and objective of the project; the project's current stage and project timeline; current estimates of the project's net present value including sensitivity analyses for the key assumptions; and the main risks of the project. Development expenditure incurred prior to the decision to proceed is subject to the same criteria for capitalization, being a high degree of confidence that the Group will determine that a project is commercially viable.

In accordance with IFRS 6 "Exploration for and Evaluation of Mineral Resources", the criteria for the capitalization of evaluation costs are applied consistently from period to period.

Subsequent recovery of the carrying value for evaluation costs depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any related impairment provisions are charged to the income statement.

#### *Acquisition of subsidiaries*

In 2014 and 2015, the Group acquired subsidiaries and businesses as set out in note 46, 47 and 48. The Group determined whether the acquisition are to be accounted for as acquisition of business or as acquisition of assets by reference to a number of factors including (i) whether the acquiree has relevant input, process or output; (ii) whether the acquiree has planned principal activities or is pursuing a plan to produce output and will be able to obtain access to customers.

In addition, the management also made judgement to determine if the Group has taken control over the subsidiaries or assets acquired as from time to time, the registration of transfer of certain operating licences may not be changed immediately upon the payment of consideration.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 6. SEGMENT INFORMATION

The Group is engaged primarily in the mining business. The Group is also engaged in the coal railway transportation business. The Company does not currently have direct export rights in the PRC and all of its export sales is made through China National Coal Industry Import and Export Corporation (“National Coal Corporation”), Minmetals Trading Co., Ltd. (“Minmetals Trading”) or Shanxi Coal Imp. & Exp. Group Corp. (“Shanxi Coal Corporation”). The exploitation right of the Group’s foreign subsidiaries is not restricted. The final customer destination of the Company’s export sales is determined by the Company, National Coal Corporation, Minmetals Trading or Shanxi Coal Corporation. Certain of the Company’s subsidiaries and associates are engaged in trading and processing of mining machinery and the transportation business via rivers and lakes and financial services in the PRC. No separate segment information about these businesses is presented in these financial statements as the underlying gross sales, results and assets of these businesses, which are currently included in the mining business segment, are insignificant to the Group. Certain of the Company’s subsidiaries are engaged in production of methanol and other chemical products, and invest in heat and electricity. Upon the acquisition of Donghua, the Group is also engaged in the manufacturing of comprehensive coal mining and excavating equipment.

Gross revenue disclosed below is same as the total revenue.

For management purposes, the Group is currently organized into four operating divisions - coal mining, coal railway transportation, methanol, electricity and heat supply and equipment manufacturing. These divisions are the basis on which the Group reports its segment information.

Principal activities are as follows:

Coal mining	-	Underground and open-cut mining, preparation and sales of coal and potash mineral exploration
Coal railway transportation	-	Provision of railway transportation services
Methanol, electricity and heat supply	-	Production and sales of methanol and electricity and related heat supply services
Equipment manufacturing	-	Manufacturing of comprehensive coal mining and excavating equipment.

The accounting policies of the reportable segments are same as the Group’s accounting policies described in note 4. Segment results represents the results of each segment without allocation of corporate expenses and directors’ emoluments, share of results of associates and joint ventures, interest income, interest expenses and income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

Unallocated corporate income for the three years ended December 31, 2015 mainly included exchange gain and other sundry items.

Unallocated corporate expenses for the three years ended December 31, 2015 mainly included bank charges, salaries and other employee benefits, miscellaneous taxes and other sundry items.

Unallocated corporate assets at December 31, 2013, 2014 and 2015 mainly included cash at bank, investments in securities, deferred tax assets and other sundry items.

Unallocated corporate liabilities at December 31, 2013, 2014 and 2015 mainly included borrowings, deferred taxation and sundry items.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

6. SEGMENT INFORMATION (continued)

Segment information about these businesses is presented below:

INCOME STATEMENT

	For the year ended December 31, 2015					
	<u>Mining</u>	<u>Coal railway</u>	<u>Methanol,</u>	<u>Equipment</u>	<u>Eliminations</u>	<u>Consolidated</u>
	<u>RMB'000</u>	<u>transportation</u>	<u>and heat</u>	<u>manufacturing</u>	<u>RMB'000</u>	<u>RMB'000</u>
		<u>RMB'000</u>	<u>supply</u>	<u>RMB'000</u>		
			<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
<b>GROSS REVENUE</b>						
External	32,875,951	327,311	2,890,906	309,918	—	36,404,086
Inter-segment	397,549	36,527	525,253	450,262	(1,409,591)	—
Total	<u>33,273,500</u>	<u>363,838</u>	<u>3,416,159</u>	<u>760,180</u>	<u>(1,409,591)</u>	<u>36,404,086</u>

Inter-segment revenue is charged at prices pre-determined by the relevant governmental authority.

	For the year ended December 31, 2015					
	<u>Mining</u>	<u>Coal railway</u>	<u>Methanol,</u>	<u>Equipment</u>	<u>Eliminations</u>	<u>Consolidated</u>
	<u>RMB'000</u>	<u>transportation</u>	<u>and heat</u>	<u>manufacturing</u>	<u>RMB'000</u>	<u>RMB'000</u>
		<u>RMB'000</u>	<u>supply</u>	<u>RMB'000</u>		
			<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
<b>RESULT</b>						
Segment results	<u>2,302,929</u>	<u>6,765</u>	<u>716,440</u>	<u>72,948</u>	<u>—</u>	<u>3,099,082</u>
Unallocated corporate expenses						(1,857,420)
Unallocated corporate income						236,313
Interest income						1,296,787
Share of profit/(loss) of associates	661,022	—	(158,658)	—	—	502,364
Share of loss of joint ventures	(170,458)	—	—	—	—	(170,458)
Interest expenses						(2,484,411)
Profit before income taxes						622,257
Income taxes						(489,637)
Profit for the year						<u>132,620</u>

**YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES**

6. SEGMENT INFORMATION (continued)

BALANCE SHEET

	At December 31, 2015					Consolidated RMB'000
	Mining RMB'000	Coal railway transportation RMB'000	Methanol, electricity and heat supply RMB'000	Equipment manufacturing RMB'000		
<b>ASSETS</b>						
Segment assets	111,690,752	381,687	5,268,752	3,146,304		120,487,495
Interests in associates	2,233,665	—	1,030,099	—		3,263,764
Interests in joint ventures	57,479	—	—	—		57,479
Unallocated corporate assets						18,663,137
						<u>142,471,875</u>
<b>LIABILITIES</b>						
Segment liabilities	32,980,697	295,693	3,278,533	3,296,306		39,851,229
Unallocated corporate liabilities						56,818,992
						<u>96,670,221</u>

OTHER INFORMATION

	For the year ended December 31, 2015					
	Mining RMB'000	Coal railway transportation RMB'000	Methanol, electricity and heat supply RMB'000	Equipment manufacturing RMB'000	Corporate RMB'000	Consolidated RMB'000
Capital additions (note 1)	9,860,172	28,060	76,866	3,338,487	48,826	13,352,411
Addition of investment in an associate	—	—	—	—	264,560	264,560
Amortization of intangible assets	708,720	—	10,055	603	13	719,391
Release of prepaid lease payments	11,575	5,372	3,690	697	—	21,334
Impairment loss on inventories	26,437	—	—	—	—	26,437
Impairment loss on goodwill	326,918	—	—	—	—	326,918
Depreciation of property, plant and equipment	2,889,848	52,422	415,894	382,295	2,117	3,742,576
Impairment losses charged on accounts receivable and other receivables	41,512	—	—	15,060	3	56,575
Reversal of impairment loss on inventory	(18,858)	—	—	—	—	(18,858)

Note 1: Capital additions include those arising from the acquisition of Donghua (note 47) and 1% equity interest of Moolarben joint operation (note 48).

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

6. SEGMENT INFORMATION (continued)

Segment information about these businesses is presented below:

INCOME STATEMENT

	For the year ended December 31, 2014				
	<u>Mining</u> RMB'000	<u>Coal railway transportation</u> RMB'000	<u>Methanol, electricity and heat supply</u> RMB'000	<u>Eliminations</u> RMB'000	<u>Consolidated</u> RMB'000
<b>GROSS REVENUE</b>					
External	58,539,353	373,617	1,457,794	—	60,370,764
Inter-segment	457,681	74,157	530,671	(1,062,509)	—
Total	<u>58,997,034</u>	<u>447,774</u>	<u>1,988,465</u>	<u>(1,062,509)</u>	<u>60,370,764</u>

Inter-segment revenue is charged at prices pre-determined by the relevant governmental authority.

	For the year ended December 31, 2014				
	<u>Mining</u> RMB'000	<u>Coal railway transportation</u> RMB'000	<u>Methanol, electricity and heat supply</u> RMB'000	<u>Eliminations</u> RMB'000	<u>Consolidated</u> RMB'000
<b>RESULT</b>					
Segment results	<u>4,555,773</u>	<u>12,801</u>	<u>218,108</u>	<u>—</u>	<u>4,786,682</u>
Unallocated corporate expenses					(1,990,316)
Unallocated corporate income					161,419
Interest income					835,931
Share of profit of associates	304,945	—	5,659	—	310,604
Share of loss of joint ventures	(320,829)	—	—	—	(320,829)
Interest expenses					<u>(2,183,581)</u>
Profit before income taxes					1,599,910
Income taxes					<u>(1,112,807)</u>
Profit for the year					<u>487,103</u>



YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

6. SEGMENT INFORMATION (continued)

BALANCE SHEET

	At December 31, 2014			Consolidated RMB'000
	Mining RMB'000	Coal railway transportation RMB'000	Methanol, electricity and heat supply RMB'000	
<b>ASSETS</b>				
Segment assets	106,340,138	384,587	5,169,555	111,894,280
Interests in associates	1,766,872	—	1,188,757	2,955,629
Interests in joint ventures	130,867	—	—	130,867
Unallocated corporate assets				18,117,338
				<u>133,098,114</u>
<b>LIABILITIES</b>				
Segment liabilities	30,639,691	140,951	3,453,427	34,234,069
Unallocated corporate liabilities				52,865,529
				<u>87,099,598</u>

OTHER INFORMATION

	For the year ended December 31, 2014				
	Mining RMB'000	Coal railway transportation RMB'000	Methanol, electricity and heat supply RMB'000	Corporate RMB'000	Consolidated RMB'000
Capital additions (note 1)	5,296,579	4,984	2,096,313	91,527	7,489,403
Addition of investment in an associate	—	—	—	125,000	125,000
Amortization of intangible assets	1,103,089	—	13,393	—	1,116,482
Release of prepaid lease payments	10,302	5,372	3,214	—	18,888
Reversal of impairment loss on intangible assets	(731,332)	—	—	—	(731,332)
Impairment loss on inventories	4,241	—	—	—	4,241
Depreciation of property, plant and equipment	2,594,622	63,055	418,693	2,385	3,078,755
Impairment losses charged (reversed) on accounts receivable and other receivables	6,954	—	(693)	—	6,261

Note 1: Capital additions include those arising from the acquisition of equity interest in Ashton Coal Mines Limited.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

6. SEGMENT INFORMATION (continued)

Segment information about these businesses is presented below:

INCOME STATEMENT

	For the year ended December 31, 2013				
	<u>Mining</u> RMB'000	<u>Coal railway transportation</u> RMB'000	<u>Methanol, electricity and heat supply</u> RMB'000	<u>Eliminations</u> RMB'000	<u>Consolidated</u> RMB'000
<b>GROSS REVENUE</b>					
External	54,444,843	457,898	1,499,085	—	56,401,826
Inter-segment	456,117	43,337	292,994	(792,448)	—
Total	<u>54,900,960</u>	<u>501,235</u>	<u>1,792,079</u>	<u>(792,448)</u>	<u>56,401,826</u>

Inter-segment revenue is charged at prices pre-determined by the relevant governmental authority.

	For the year ended December 31, 2013				
	<u>Mining</u> RMB'000	<u>Coal railway transportation</u> RMB'000	<u>Methanol, electricity and heat supply</u> RMB'000	<u>Eliminations</u> RMB'000	<u>Consolidated</u> RMB'000
<b>RESULT</b>					
Segment results	1,844,605	22,720	403,702	—	2,271,027
Unallocated corporate expenses					(1,504,126)
Unallocated corporate income					71,395
Interest income					489,348
Share of (loss) profit of associates	(330,158)	—	564,055	—	233,897
Share of loss of joint ventures	(376,032)	—	—	—	(376,032)
Interest expenses					(1,765,777)
Loss before income taxes					(580,268)
Income taxes					394,815
Loss for the year					<u>(185,453)</u>

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

6. SEGMENT INFORMATION (continued)

BALANCE SHEET

	At December 31, 2013			Consolidated RMB'000
	Mining RMB'000	Coal railway transportation RMB'000	Methanol, electricity and heat supply RMB'000	
<b>ASSETS</b>				
Segment assets	102,090,643	363,874	5,682,418	108,136,935
Interests in associates	1,561,859	—	1,183,098	2,744,957
Interests in joint ventures	488,350	—	—	488,350
Unallocated corporate assets				16,087,947
				<u>127,458,189</u>
<b>LIABILITIES</b>				
Segment liabilities	31,275,948	170,879	3,735,244	35,182,071
Unallocated corporate liabilities				48,290,057
				<u>83,472,128</u>

OTHER INFORMATION

	For the year ended December 31, 2013				
	Mining RMB'000	Coal railway transportation RMB'000	Methanol, electricity and heat supply RMB'000	Corporate RMB'000	Consolidated RMB'000
Capital additions (note 1)	18,709,633	22,285	1,519,220	36	20,251,174
Amortization of intangible assets	1,323,031	—	2,047	—	1,325,078
Release of prepaid lease payments	10,020	5,372	3,336	—	18,728
Impairment loss on intangible assets	2,052,238	—	—	—	2,052,238
Impairment loss on inventories	58,274	—	—	—	58,274
Depreciation of property, plant and equipment	2,612,359	68,098	442,392	2,104	3,124,953
Impairment losses (reversed) charged on accounts receivable and other receivables	(3,799)	—	2,683	374	(742)

Note 1: Capital additions include those arising from the acquisition of Hao Sheng during the year.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

6. SEGMENT INFORMATION (continued)

GEOGRAPHICAL INFORMATION

The following table sets out the geographical information. The geographical location of sales to external customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of operations, in the case of interests in associates and joint ventures.

The geographical information of revenue are as follows:

	Revenue from external customers		
	For the year ended December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
The PRC (place of domicile)	28,686,244	52,912,594	47,299,887
Australia	1,383,976	1,346,979	2,130,591
Others	6,333,866	6,111,191	6,971,348
Total	<u>36,404,086</u>	<u>60,370,764</u>	<u>56,401,826</u>

The geographical information of specified non-current assets are as follows:

	Specified non-current assets		
	At December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
The PRC (place of domicile)	60,771,128	55,636,862	52,741,341
Australia	22,057,202	30,275,107	32,090,208
Canada	1,549,218	1,646,191	1,691,407
Total non-current assets	<u>84,377,548</u>	<u>87,558,160</u>	<u>86,522,956</u>

For the year ended December 31, 2015, the revenue from mining segment amounted to RMB32,875,951,000 (2014: RMB58,539,353,000; 2013: RMB54,444,843,000) which including sales to the Group's largest customer located in the PRC of approximately RMB880,380,000 (2014: RMB2,235,199,000; 2013: RMB3,243,219,000). As at December 31, 2015, accounts receivable from this customer accounted for nil (2014: nil) of the Group's total accounts receivable.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

7. SALES OF COAL AND TRANSPORTATION COSTS OF SALES

	Year ended December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
Coal sold in the PRC	25,309,377	51,125,696	45,342,904
Coal sold outside the PRC	7,566,574	7,413,657	9,101,939
Total coal sold	<u>32,875,951</u>	<u>58,539,353</u>	<u>54,444,843</u>
Transportation costs for coal sold in the PRC	610,269	880,224	444,306
Transportation costs for coal sold outside the PRC	1,468,633	1,411,370	1,579,890
Total transportation costs	<u>2,078,902</u>	<u>2,291,594</u>	<u>2,024,196</u>

8. COST OF SALES AND SERVICE PROVIDED

	Year ended December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
Materials	2,053,678	2,972,296	3,022,210
Wages and employee benefits	4,643,419	6,405,198	6,724,456
Electricity	477,429	622,505	764,353
Depreciation	2,055,167	2,230,146	2,404,252
Land subsidence, restoration, rehabilitation and environmental costs	1,387,551	1,299,711	1,440,621
Annual fee and amortization of mining rights (note 23)	693,626	1,103,089	1,304,972
Transportation costs	16,335	13,785	15,965
Cost of traded coal	12,255,123	31,372,479	22,834,366
Business tax and surcharges	689,667	532,965	541,676
Others	1,566,284	3,005,328	3,458,967
	<u>25,838,279</u>	<u>49,557,502</u>	<u>42,511,838</u>

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
Wages and employee benefits	1,885,509	2,022,643	1,894,073
Staff training costs	3,144	6,135	4,558
Depreciation	303,890	396,120	417,204
Distribution charges	1,332,731	1,491,701	1,448,114
Resource compensation fees (note)	—	164,237	209,493
Repairs and maintenance	364,945	433,958	354,071
Research and development	38,072	33,929	45,110
Freight charges	35,225	42,704	41,185
Provision for bad debts	56,575	6,261	23,931
Impairment loss on intangible assets	—	—	2,052,238
Impairment loss on goodwill	326,918	—	—
Impairment loss on inventories	26,437	8,621	58,274
Legal and professional fees	72,642	76,148	129,496
Social welfare and insurance	50,981	63,937	51,255
Utilities relating to administrative buildings	137,200	137,200	80,042
Environmental protection	5,680	9,518	5,552
Travelling, entertainment and promotion	127,772	102,299	102,670
Exchange loss, net	201,788	—	1,686,001
Coal price adjustment fund	—	228,193	424,017
Bonus payments	—	—	17,154
Other sundry taxes	615,782	687,433	352,601
Others	111,413	158,847	983,674
	<u>5,696,704</u>	<u>6,069,884</u>	<u>10,380,713</u>

Note: In accordance with the relevant regulations, the Group pays resource compensation fees (effectively a government levy) to the Ministry of Geology and Mineral Resources at the rate of 1% on the sales value of raw coal. From December 1, 2014, the Ministry of Geology and Mineral Resources withdraw the relevant regulation to charge the resource compensation fees and coal price adjustment fund.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

10. OTHER INCOME

	Year ended December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
Dividend income (note 1)	31,981	7,385	71,395
Gain on sales of securities investment	204,331	—	—
Gain on sales of auxiliary materials	170,688	71,060	37,658
Government grants	184,594	238,083	169,957
Interest income	1,296,787	835,931	489,348
Exchange gain, net	—	154,034	—
Bargain purchase	—	147,993	—
Gain on acquisition of additional interest in joint operation (notes 2 and 48)	30,930	—	—
Gain on disposals of property, plant and equipment	9,069	5,986	14,973
Gain on change in fair value of investments in securities	11,454	—	—
Reversal of impairment loss on intangible assets (note 23)	—	731,332	—
Rental income	80,056	8,680	5,997
Reversal of impairment loss on inventory	18,858	—	—
Service Income	130,210	—	—
Others	148,897	181,702	231,249
	<u>2,317,855</u>	<u>2,382,186</u>	<u>1,020,577</u>

Note 1: The above dividend income is from listed investments.

Note 2: During the year, Yancoal Australia acquired additional 1% equity interests in Moolarben joint operation. The Group held 81% (2014: 80%) equity interest in Moolarben joint operation.

11. INTEREST EXPENSES

	Year ended December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
Interest expenses on:			
- bank and other borrowings wholly repayable within 5 years	1,937,698	2,631,542	1,565,693
- bank and other borrowings not wholly repayable within 5 years	608,631	196,343	418,606
- bills receivable discounted without recourse	36,602	2,738	9,341
	<u>2,582,931</u>	<u>2,830,623</u>	<u>1,993,640</u>
Less: interest expenses capitalized into construction in progress (capitalization rate for the year ended December 31, 2015, 2014 and 2013: 4.75% - 6.00%, 6.00% - 6.90% and 6.40% - 6.55% respectively)	(98,520)	(647,042)	(227,863)
	<u>2,484,411</u>	<u>2,183,581</u>	<u>1,765,777</u>

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

12. INCOME TAXES

	Year ended December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
<b>Income taxes:</b>			
Current taxes	1,657,010	1,421,048	1,991,862
Under (Over) provision in prior years	—	19,119	(286,292)
	<u>1,657,010</u>	<u>1,440,167</u>	<u>1,705,570</u>
<b>Deferred taxes (note 40):</b>			
Australian Minerals Resources Rent Tax (Note)	—	602,180	141,182
Others	(1,167,373)	(929,540)	(2,241,567)
	<u>489,637</u>	<u>1,112,807</u>	<u>(394,815)</u>

Except An Yuan Coal Mine and Xintai, the Company and its subsidiaries in the PRC are subject to a standard income tax rate of 25% on its taxable income (2014: 25%; 2013: 25%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Note: The Australian Minerals Resources Rent Tax (“MRRT”) legislation was enacted on March 19, 2012 and effective from July 1, 2012. According to the relevant provisions of the MRRT tax laws, subsidiaries in Australia are required to determine the starting base allowance on the balance sheet. Book value or market value approach can be selected in calculating the starting base and subsequently amortize within the prescribed useful life. Market value approach was selected for mines in Australia. Under the market value approach, base value is determined based on market value of the coal mines on May 1, 2010 and amortize based on the shorter of the life of mining project, mining rights and mining production.

During 2013, the Australian Government released an exposure draft legislation which proposed to repeal the MRRT legislation. On September 5, 2014, the Minerals Resource Rent Tax Repeal and Other Measures Act 2014 received royal assent. Entities would not be required to pay MRRT commencing on October 1, 2014, accordingly, the current and deferred MRRT assets and liabilities had been derecognised in 2014.

The total charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	Year ended December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
Standard income tax rate in the PRC	25%	25%	25%
Standard income tax rate applied to income before income taxes	155,564	399,977	(145,067)
<b>Reconciling items:</b>			
Effect of (income) expense exempt from taxation	391,247	127,389	(83,106)
Deemed interest income from subsidiaries subject to tax	160,513	250,699	210,978
Tax effect of tax losses not recognized	44,417	314,680	210,460
Under (Over) provision in prior years	—	19,119	(286,293)
MRRT	—	421,526	96,223
Utilization of unrecognized tax losses in prior years	(129,031)	(172,892)	(62,637)
Effect of tax rate differences in other taxation jurisdictions	(116,417)	(156,363)	(383,370)
Others	(16,656)	(91,328)	47,997
Income taxes	<u>489,637</u>	<u>1,112,807</u>	<u>(394,815)</u>
Effective income tax rate	<u>78.69%</u>	<u>69.55%</u>	<u>68%</u>



YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

13. PROFIT (LOSS) BEFORE INCOME TAXES

	Year ended December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
Profit (Loss) before income taxes has been arrived at after charging:			
Amortization of intangible assets	719,391	1,116,482	1,325,078
Depreciation of property, plant and equipment			
- under finance leases	56,243	15,935	32,129
- self-owned	3,686,333	3,062,820	3,092,824
Total depreciation and amortization	4,461,967	4,195,237	4,450,031
Release of prepaid lease payments	21,334	18,888	18,728
Impairment loss recognised in respect of:			
- Intangible assets	—	—	2,052,238
- Goodwill	326,918	—	—
- Inventories	26,437	8,621	58,274
Auditors' remuneration	17,348	15,325	23,771
Staff costs, including directors', chief executive director's supervisors' and management team's emoluments	7,637,544	10,056,870	9,811,721
Retirement benefit scheme contributions (included in staff costs above)	1,726,142	1,865,769	2,153,433
Cost of inventories	15,680,162	34,942,943	26,437,983
Research and development costs	38,072	33,929	45,110
Operating lease charges in respect of leased premises	64,010	55,230	65,043
Provision (Reversal) of impairment loss on accounts receivable and other receivables, net	56,575	6,261	(742)
Exchange loss (gain), net	201,788	(154,034)	1,686,001
and crediting:			
Gain on disposal of property, plant and equipment	(9,069)	(5,986)	(14,973)
Reversal of impairment loss on intangible assets	—	(731,332)	—
Reversal of impairment loss on inventory	(18,858)	—	—

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

14. DIRECTORS', CHIEF EXECUTIVE DIRECTOR'S, SUPERVISORS' AND MANAGEMENT TEAM'S REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

Directors', chief executive director's, supervisors' and management team's emoluments

Details of the directors', chief executive director's, supervisors' and management team's emoluments are as follows:

	For the year ended December 31, 2015			Total RMB'000
	Fees RMB'000	Salaries, allowance and other benefits in kind RMB'000	Retirement benefit scheme contributions RMB'000	
<b>Independent non-executive directors</b>				
Wang Xiaojun	130	—	—	130
Xue Youzhi	130	—	—	130
Wang Lijie	130	—	—	130
Jia Shaohua	130	—	—	130
	<u>520</u>	<u>—</u>	<u>—</u>	<u>520</u>
<b>Executive directors</b>				
Zhang Xinwen**	—	—	—	—
Wu Yuxiang	—	522	101	623
Zhang Baocai	—	1,714	42	1,756
Yin Mingde	—	554	108	662
Wu Xiangqian	—	637	124	761
Jiang Qingquan	—	448	87	535
	<u>—</u>	<u>3,875</u>	<u>462</u>	<u>4,337</u>
<b>Chief executive director</b>				
Li Xiyong*	—	—	—	—
<b>Supervisors</b>				
Shi Xuerang***	—	—	—	—
Zhang Shengdong*	—	—	—	—
Gu Shisheng*	—	—	—	—
Zhen Ailan*	—	—	—	—
Guo Jun	—	477	92	569
Chen Zhongyi	—	402	77	479
	<u>—</u>	<u>879</u>	<u>169</u>	<u>1,048</u>
<b>Other management team</b>				
Liu Chun	—	526	102	628
Shi Chengzhong	—	548	107	655
Wang Fuqi	—	469	91	560
Ding Guangmu	—	465	90	555
Zhao Honggang	—	521	101	622
Zhao Qingchun	—	462	89	551
Jin Qingbin	—	302	58	360
	<u>—</u>	<u>3,293</u>	<u>638</u>	<u>3,931</u>
Total	<u>520</u>	<u>8,047</u>	<u>1,269</u>	<u>9,836</u>

\* Emoluments paid to these directors, chief executive, supervisors and management team were borne by the Parent company.

\*\* Zhang Xinwen resigned as Director on March 13, 2015

\*\*\* Shi Xuerang resigned as Supervisor on June 30, 2015

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

14. DIRECTORS', CHIEF EXECUTIVE DIRECTOR'S, SUPERVISORS' AND MANAGEMENT TEAM'S REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

Directors', chief executive director's, supervisors' and management team's emoluments (continued)

Details of the directors', chief executive director's, supervisors' and management team's emoluments are as follows:

	Fees RMB'000	For the year ended December 31, 2014 Salaries, allowance and other benefits in kind RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
<u>Independent non-executive directors</u>				
Wang Xiaojun	130	—	—	130
Wang Xianzheng	54	—	—	54
Cheng Faguang	54	—	—	54
Xue Youzhi	130	—	—	130
Wang Lijie	76	—	—	76
Jia Shaohua	76	—	—	76
	<u>520</u>	<u>—</u>	<u>—</u>	<u>520</u>
<u>Executive directors</u>				
Zhang Xinwen*	—	—	—	—
Wang Xin*	—	—	—	—
Zhang Yingmin	—	226	42	268
Li Weimin*	—	—	—	—
Shi Xuerang*	—	—	—	—
Wu Yuxiang	—	518	101	619
Zhang Baocai	—	2,074	102	2,176
Dong Yunqing	—	322	62	384
Yin Mingde	—	876	172	1,048
Wu Xiangqian	—	859	169	1,028
Jiang Qing Quan	—	396	76	472
	<u>—</u>	<u>5,271</u>	<u>724</u>	<u>5,995</u>
<u>Chief executive director</u>				
Li Xiyong*	—	—	—	—
<u>Supervisors</u>				
Song Guo*	—	—	—	—
Zhang Shengdong*	—	—	—	—
Zhou Shoucheng*	—	—	—	—
Zhen Ailan*	—	—	—	—
Wei Huanmin	—	539	105	644
Xu Bentai	—	566	110	676
Guo Jun	—	794	156	950
Chen Zhong Yi	—	290	55	345
	<u>—</u>	<u>2,189</u>	<u>426</u>	<u>2,615</u>
<u>Other management team</u>				
Liu Chun	—	547	107	654
He Ye*	—	—	—	—
Tian Fengze	—	558	109	667
Shi Chengzhong	—	547	107	654
Ni Xinghua	—	570	111	681
Lai Cunliang*	—	—	—	—
Wang Fuqi	—	391	75	466
Ding Guangmu	—	373	72	445
Zhao Honggang	—	217	41	258
	<u>—</u>	<u>3,203</u>	<u>622</u>	<u>3,825</u>
<b>Total</b>	<u>520</u>	<u>10,663</u>	<u>1,772</u>	<u>12,955</u>

\* Emoluments paid to these directors, chief executive and supervisors were borne by the Parent company.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

14. DIRECTORS', CHIEF EXECUTIVE DIRECTOR'S, SUPERVISORS' AND MANAGEMENT TEAM'S REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

Directors', chief executive director's, supervisors' and management team's emoluments (continued)

Details of the directors', chief executive director's, supervisors' and management team's emoluments are as follows:

	For the year ended December 31, 2013			Total RMB'000
	Fees RMB'000	Salaries, allowance and other benefits in kind RMB'000	Retirement benefit scheme contributions RMB'000	
<u>Independent non-executive directors</u>				
Wang Xiaojun	130	—	—	130
Wang Xianzheng	130	—	—	130
Cheng Faguang	130	—	—	130
Xue Youzhi	130	—	—	130
	<u>520</u>	<u>—</u>	<u>—</u>	<u>520</u>
<u>Executive directors</u>				
Zhang Xinwen*	—	—	—	—
Wang Xin*	—	—	—	—
Zhang Yingmin	—	512	100	612
Li Weimin*	—	—	—	—
Shi Xuerang*	—	—	—	—
Wu Yuxiang	—	468	91	559
Zhang Baocai	—	469	92	561
Dong Yunqing	—	470	92	562
	<u>—</u>	<u>1,919</u>	<u>375</u>	<u>2,294</u>
<u>Chief executive director</u>				
Li Xiyong*	—	—	—	—
<u>Supervisors</u>				
Song Guo*	—	—	—	—
Zhang Shengdong*	—	—	—	—
Zhou Shoucheng*	—	—	—	—
Zhen Ailan*	—	—	—	—
Wei Huanmin	—	470	92	562
Xu Bentai	—	461	90	551
	<u>—</u>	<u>931</u>	<u>182</u>	<u>1,113</u>
<u>Other management team</u>				
Liu Chun	—	490	96	586
He Ye	—	417	81	498
Tian Fengze	—	486	95	581
Shi Chengzhong	—	481	94	575
Ni Xinghua	—	497	97	594
Lai Cunliang	—	766	—	766
	<u>—</u>	<u>3,137</u>	<u>463</u>	<u>3,600</u>
<b>Total</b>	<u>520</u>	<u>5,987</u>	<u>1,020</u>	<u>7,527</u>

\* Emoluments paid to these directors, chief executives and supervisors were borne by the Parent company.

No directors waived any of their emoluments in each of the year ended December 31, 2015, 2014 and 2013.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

14. DIRECTORS', CHIEF EXECUTIVE DIRECTOR'S, SUPERVISORS' AND MANAGEMENT TEAM'S REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

Employees' emoluments

The five highest paid individuals in the Group included three directors for the year ended December 31, 2015 (2014: three ; 2013: nil). The emoluments of the five highest paid individuals (2014: five; 2013: five) were stated as follows:

	Year ended December 31,		
	2015 RMB'000	2014 RMB'000	2013 RMB'000
Salaries, allowance and other benefits in kind	9,346	16,801	19,496
Retirement benefit scheme contributions	448	586	453
Discretionary bonuses	7,823	6,655	2,820
	<u>17,617</u>	<u>24,042</u>	<u>22,769</u>

Their emoluments were within the following bands:

	Year ended December 31,		
	2015 No. of employees	2014 No. of employees	2013 No. of employees
HK\$ 500,001 to HK\$ 1,000,000	2	—	—
HK\$ 1,000,001 to HK\$ 1,500,000	—	2	—
HK\$ 2,000,001 to HK\$ 2,500,000	1	—	—
HK\$ 2,500,001 to HK\$ 3,000,000	1	1	1
HK\$ 3,500,001 to HK\$ 4,000,000	—	—	1
HK\$ 4,500,001 to HK\$ 5,000,000	—	—	1
HK\$ 5,500,001 to HK\$ 6,000,000	—	—	—
HK\$ 6,000,001 to HK\$ 6,500,000	—	—	1
HK\$ 10,000,001 to HK\$ 10,500,000	—	1	—
HK\$ 11,000,001 to HK\$ 11,500,000	—	—	1
HK\$ 14,500,001 to HK\$ 15,000,000	1	—	—
HK\$ 16,000,001 to HK\$ 16,500,000	—	1	—

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 15. DIVIDEND RECOGNIZED AS DISTRIBUTION DURING THE YEAR

	Year ended December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
2014 final dividend, RMB0.020 per share (2013 final dividend, RMB 0.020 per share, 2012 final dividend, RMB 0.036 per share)	98,368	98,368	1,770,624

In the annual general meeting held on May 15, 2013, a final dividend in of RMB0.360 per share in respect of the year ended December 31, 2012 was approved by the shareholders and paid to the shareholders of the Company.

In the annual general meeting held on May 14, 2014, a final dividend of RMB0.020 per share in respect of the year ended December 31, 2013 was approved by the shareholders and paid to the shareholders of the Company.

In the annual general meeting held on May 22, 2015, a final dividend of RMB0.020 per share in respect of the year ended December 31, 2014 was approved by the shareholders and paid to the shareholders of the Company.

The board of directors proposes to declare a final dividend of approximately RMB49,120,000 calculated based on a total number of 4,912,016,000 shares issued at RMB1 each, at RMB0.010 in respect of the year ended December 31, 2015. The declaration and payment of the final dividend needs to be approved by the shareholders of the Company by way of an ordinary resolution in accordance with the requirements of the Company's Articles of Association. A shareholders' general meeting will be held for the purpose of considering and, if thought fit, approving this ordinary resolution.

### 16. EARNINGS PER SHARE AND PER ADS

The calculation of the earnings per share attributable to the equity holders of the Company for the years ended December 31, 2015, 2014 and 2013 is based on the profit attributable to the equity holders of the Company for the year of RMB164,459,000, RMB766,158,000 and RMB777,368,000 and on the weighted average 4,918,200,000 shares in issue during 2015 excluding the ordinary shares repurchased and held as treasury shares and 4,918,400,000 shares in issue, during 2014 and 2013, respectively.

The earnings per ADS have been calculated based on the profit for the relevant periods and on one ADS, being equivalent to 10 H shares.

On 31 December 2014, the Company's subsidiary issued subordinated capital notes. Noteholders will be permitted to convert the subordinated capital notes into 1,000 Yancoal Australia Limited ordinary shares.

Diluted earnings per share for the years ended December 31, 2015 and 2014 equal to the basic earnings per share as there is no dilutive effect of subordinated capital notes on potential ordinary shares.

No diluted earnings per share have been presented for the years ended December 31, 2013, as there were no dilutive potential shares in issue.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

17. BANK BALANCES AND CASH/TERM DEPOSITS AND RESTRICTED CASH

Bank balances carry interest at market rates which ranged from 0.3% to 2.1% (2014: from 0.35% to 3.35%) per annum.

At the balance sheet date, the restricted cash of the PRC subsidiaries represents the deposits paid for safety work as required by the State Administrative of work safety and bank acceptance bill deposit which carry interest at market rates of 0.01%-0.6% (2014: 0.01%-0.6%) the remaining portion represents deposits placed as guarantee for the future payment of land subsidence as required by the Australian government, which carry interest at average rate of 1.19% (2014: 1.85%).

Term deposits was pledged to certain banks as security for loans and banking facilities granted to the Group, which carry fixed interest rate ranging from 0.6%-2.75% (2014: 0.6%-4.25%).

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

18. BILLS AND ACCOUNTS RECEIVABLE

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Accounts receivable	2,477,020	2,029,449
Less: Impairment loss	(59,914)	(13,697)
	<u>2,417,106</u>	<u>2,015,752</u>
Bills receivable	<u>3,559,731</u>	<u>5,068,353</u>
Total bills and accounts receivable, net	<u>5,976,837</u>	<u>7,084,105</u>

Bills receivable represents unconditional orders in writing issued by or negotiated from customers of the Group for completed sale orders which entitle the Group to collect a sum of money from banks or other parties. The bills are non-interest bearing and have a maturity of six months.

According to the credit rating of different customers, the Group allows a range of credit periods to its trade customers not exceeding 180 days.

The following is an aged analysis of bills and accounts receivable, net of provision for impairment, based on the invoice dates at the balance sheet dates:

	At December 31,	
	2015	2014
	RMB'000	RMB'000
1 - 90 days	4,358,793	6,625,097
91 - 180 days	513,685	187,440
181 - 365 days	353,227	259,850
Over 1 year	751,132	11,718
	<u>5,976,837</u>	<u>7,084,105</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year.

The ageing analysis of the Company's bills and trade receivables, that were past due but not yet impaired as at the reporting dates, based on due date is as follow: 1 to 90 days amounted to RMB149,634,000, 91 to 180 days amounted to RMB56,791,000, 181 to 365 days amounted to RMB80,974,000 and over 1 year amounted to RMB605,439,000 (2014: No significant balance of accounts receivable and bills receivable which are past due but not yet impaired).

The Group has provided fully for all receivables over 3 years because historical experience is such receivables that are past due beyond 3 years are generally not recoverable. For receivable aged over 4 years and considered irrecoverable by the management will be written off.



YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

18. BILLS AND ACCOUNTS RECEIVABLE (continued)

An analysis of the impairment loss on bills and accounts receivable for 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
	RMB'000	RMB'000
Balance at January 1	13,697	8,289
Provided for the year	46,217	12,673
Reversal	—	(7,265)
Balance at December 31	<u>59,914</u>	<u>13,697</u>

Included in the allowance for doubtful debts is an allowance of RMB59,914,000 (2014: RMB13,697,000) for individually impaired trade receivables, which are mainly due from corporate customers in the PRC and considered irrecoverable by the management after consideration on the credit quality of those individual customers, the ongoing relationship with the Group and the aging of these receivables. The impairment recognized represents the difference between the carrying amount of these trade receivables and the present value of the amounts. The Group does not hold any collateral over these balances.

19. ROYALTY RECEIVABLE

	At December 31,	
	<u>2015</u>	<u>2014</u>
	RMB'000	RMB'000
As at January 1	999,064	1,134,374
Cash received	(87,218)	(79,924)
Unwinding discount	103,297	116,444
Exchange re-alignment	(58,529)	(84,196)
Change in fair value	11,913	(87,634)
As at December 31	<u>968,527</u>	<u>999,064</u>
Presented as:		
Current portion	93,083	89,137
Non-current portion	<u>875,444</u>	<u>909,927</u>
	<u>968,527</u>	<u>999,064</u>

A right to receive a royalty of 4% of Free on Board trimmed sales from Middlemount mine operated by Middlemount Joint Venture was acquired as part of the acquisition of Gloucester. This financial assets has been determined to have a finite life being the life of the Middlemount and is measured at fair value basis.

The royalty receivable is measured based on management expectations of the future cash flows with the re-measurement recorded in the income statement at each balance sheet date. The amount expected to be received in the next 12 month will be disclosed as current receivable and the discounted expected future cash flow beyond 12 months will be disclosed as a non-current receivable. Change in fair value is included in “others” under other income (note 10) (2014: “others” selling, general and administrative expenses (note 9)).

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

20. INVENTORIES

	At December 31,	
	2015	2014
	RMB'000	RMB'000
<b>COST</b>		
Equipments		
Work in progress	102,632	—
Finished goods	155,669	—
	<u>258,301</u>	<u>—</u>
Methanol	17,279	17,966
Auxiliary materials, spare parts and small tools	571,178	393,683
Coal products	1,005,575	1,058,831
	<u>1,852,333</u>	<u>1,470,480</u>

21. PREPAYMENTS AND OTHER RECEIVABLES

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Advances to suppliers (i)	2,707,340	2,009,055
Prepaid relocation costs of inhabitants	2,104,038	2,102,117
Advance to an associate (ii)	—	1,250,000
Dividend receivable (iii)	300,000	—
Others (i)	2,857,440	1,858,079
	<u>7,968,818</u>	<u>7,219,251</u>

- (i) Included in the above balances as of December 31, 2015 is an impairment loss of RMB29,523,000 (2014: RMB19,165,000).  
The Group has provided fully for all receivables over 3 years because historical experience is such receivables that are past due beyond 3 years are generally not recoverable. Receivable will be written off, if aged over 4 years and considered irrecoverable by the management after considering the credit quality of the individual party and the nature of the amount overdue. During the year ended December 31, 2015, there was no written off against prepayments and other receivables (2014: Nil).
- (ii) The advance to an associate was guaranteed by the Parent Company, interest-bearing at 6% per annum and repaid during the year.
- (iii) The dividend receivable is from an associate, Huadian Power International Corporation Limited.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

22. PREPAID LEASE PAYMENTS

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Current portion	23,407	22,343
Non-current portion	900,942	776,751
	<u>924,349</u>	<u>799,094</u>

The amounts represent prepaid lease payments for land use rights which are situated in the PRC and have a term of 45 to 50 years from the date of grant of land use rights certificates.

23. INTANGIBLE ASSETS

	Mining reserves	Mining resources	Potash mineral exploration permit	Technology	Water Licenses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>COST</b>							
At January 1, 2014	37,537,376	4,462,490	1,467,851	135,753	131,080	113,141	43,847,691
Exchange re-alignment	(1,358,252)	(275,058)	(109,867)	(10,319)	(495)	(8,481)	(1,762,472)
Additions for the year	—	16,635	—	100,983	—	11,010	128,628
Acquisition of Ashton Coal Mines Limited (note 46)	782,928	—	—	—	—	—	782,928
At December 31, 2014 and at January 1, 2015	36,962,052	4,204,067	1,357,984	226,417	130,585	115,670	42,996,775
Exchange re-alignment	(979,092)	(354,428)	(158,667)	(7,245)	(348)	(8,258)	(1,508,038)
Additions for the year	121,415	18,773	—	—	—	14,860	155,048
Reclassification	—	14,606	(14,606)	—	—	—	—
Acquisition of Donghua (note 47)	—	—	—	11,930	—	2,194	14,124
Reclassified as assets held for sale	(3,528,572)	—	—	—	(5,673)	(11,841)	(3,546,086)
At December 31, 2015	<u>32,575,803</u>	<u>3,883,018</u>	<u>1,184,711</u>	<u>231,102</u>	<u>124,564</u>	<u>112,625</u>	<u>38,111,823</u>
<b>AMORTIZATION AND IMPAIRMENT</b>							
At January 1, 2014	5,422,579	135,753	—	—	253	32,718	5,591,303
Exchange re-alignment	(254,416)	(10,317)	—	—	(344)	(2,150)	(267,227)
Provided for the year	1,103,089	—	—	—	272	13,121	1,116,482
Reversal of impairment loss	(731,332)	—	—	—	—	—	(731,332)
At December 31, 2014 and at January 1, 2015	5,539,920	125,436	—	—	181	43,689	5,709,226
Exchange re-alignment	(166,067)	(7,245)	—	—	(277)	(18,621)	(192,210)
Provided for the year	693,626	—	—	5,545	4,983	15,237	719,391
Amortization associated with assets classified as held for sale	(377,879)	—	—	—	(246)	10,231	(367,894)
At December 31, 2015	<u>5,689,600</u>	<u>118,191</u>	<u>—</u>	<u>5,545</u>	<u>4,641</u>	<u>50,536</u>	<u>5,868,513</u>
<b>CARRYING VALUE</b>							
At December 31, 2015	<u>26,886,203</u>	<u>3,764,827</u>	<u>1,184,711</u>	<u>225,557</u>	<u>119,923</u>	<u>62,089</u>	<u>32,243,310</u>
At December 31, 2014	<u>31,422,132</u>	<u>4,078,631</u>	<u>1,357,984</u>	<u>226,417</u>	<u>130,404</u>	<u>71,981</u>	<u>37,287,549</u>

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 23. INTANGIBLE ASSETS (continued)

The Parent Company and the Company have entered into a mining rights agreement pursuant to which the Company has agreed to pay to the Parent Company, effective from September 25, 1997, an annual fee of RMB12,980,000 as compensation for the Parent Company's agreement to give up the mining rights associated with the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine, Dongtan coal mine and Jining II. Revised compensation fees was settled with the government authority directly in 2012.

The mining rights (mining reserves) are amortized based on unit of production method.

The potash mineral exploration permit is reclassified to mining resources or mining reserves according to its progress of exploration. Technology has not yet reached the stage of commercial application and therefore is not amortized. Patent also included in technology and it is amortized on a straight line basis of 10 years over the useful life.

Water licenses are amortized over the life of mine. If the mining activities of the relevant locations have not yet been started and the connections to water sources have not been completed, no amortization will be provided.

Other intangible assets mainly represent computer software which is amortized on a straight line basis of 2.5 to 5 years over the useful life.

Mining resources at December 31, 2015 included exploration and evaluation expenditures capitalized amounting to RMB10,720,000 (2014: RMB42,234,000). During the year ended December 31, 2015, no exploration and evaluation expenditures (2014: Nil; 2013: Nil) were charged to income statement. No income or liabilities were recognized during the year ended December 31, 2015 and 2014. Net cash used in investing activities in relation to exploration and evaluation amounted to RMB10,232,000 (2014: RMB42,234,000; 2013: RMB48,661,000) and there was no cash flow related exploration and evaluation recorded in cash flow from operation activities during the years ended December 31, 2015, 2014 and 2013.

Amortization expense of the mining rights for the year of RMB693,626,000 (2014: RMB1,103,089,000) has been included in cost of sales and service provided. Amortization expense of other intangible assets for the year of RMB25,765,000 (2014: RMB13,393,000) has been included in selling, general and administrative expenses.

At December 31, 2015, intangible assets with a carrying amount of approximately RMB15,350,517,000 (2014: RMB13,045,169,000) have been pledged to secure the Group's borrowings (note 36).

Given the continuing decrease in coal price during the year ended December 31, 2013, management performed impairment test for the Group's intangible assets and concluded that the recoverable amount of cash generating units, Moolarben Coal Mine and Stratford Coal Mine were below its carrying amount. RMB2,052,238,000 impairment loss has been recognized accordingly. The recoverable amounts of the aforesaid cash generating units amounting to RMB 12,227,722,000 have been determined based on value in use, which has been calculated using a discounted cash flow model with an assumption of post-tax discount rate of 11%.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 23. INTANGIBLE ASSETS (continued)

During the year ended December 31, 2014, there has been an improvement in current and life of mine operating costs and an increase in the JORC reserves at the Moolarben mine. These factors have been considered a trigger for impairment reversal. An impairment reversal of RMB731,332,000 has been recognised through the profit or loss. The recoverable amount for Moolarben was determined to be approximately RMB10.5 billion.

During the year ended December 31, 2015, each cash generating unit's recoverable amount has been determined using the fair value less costs of disposal method. To provide an indication about the reliability of the inputs used in determining fair value the accounting standards prescribe three levels under which fair value measurements should be categorised (refer to Note 45c for further details). The fair value model adopted has been categorised as level 3.

Fair value less costs of disposal has been determined using a discounted cash flow model. The key assumptions to which the model is most sensitive include:

- Coal prices
- Foreign exchange rates
- Production and capital costs
- Discount rate
- Coal reserves and resources

In determining the value assigned to each key assumption, management has used external sources of information and utilised the expertise of external consultants and experts within the Group to validate entity specific assumptions such as coal reserves and resources.

Furthermore, the Group's cash flow forecasts are based on estimates of future coal prices, which assume market prices will revert to the Group's assessment of the average long term real coal prices of US\$55- US\$109 per tonne (2014:USD76 – USD108 per tonne) for thermal coal and US\$91 - US\$166 per tonne (2014:USD98 – USD184 per tonne) for metallurgical coal in the export market of the Australian subsidiaries. The Group receives long term forecast coal price data from multiple externally verifiable sources when determining its coal price forecasts, making adjustments for specific coal quality factors. For both thermal and metallurgical coal the price forecast that results in the recoverable amount exceeding the book value is within the range of external price forecasts.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

23. INTANGIBLE ASSETS (continued)

The long term AUD/USD forecast exchange rate of \$0.73 (2014: \$0.78) is based on externally verifiable sources. The year-end AUD/USD exchange rate was \$0.73 (2014: \$0.82) per the Reserve Bank of Australia.

Production and capital costs are based on the Group's estimate of forecasted geological conditions, stage of existing plant and equipment and future production levels. This information is obtained from internally maintained budgets, the five year business plan, life of mine models, life of mine plans and project evaluations performed by the Group in its ordinary course of business.

The Group has applied a post-tax discount rate of 10.5% (2014: 11%) to discount the forecast future attributable post-tax cash flows. The post-tax discount rate applied to the future cash flow forecasts represent an estimate of the rate the market would apply having regard to the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. This rate is also consistent with the Group's five year business plan, life of mine models and project evaluations performed in ordinary course of business.

Based on the above assumptions at December 31, 2015, the recoverable amount is determined to be above carrying value for all cash generating units in Australia resulting in no further impairment (2014: Nil).

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

24. PROPERTY, PLANT AND EQUIPMENT

	Freehold land in Australia RMB'000	Buildings RMB'000	Railway structures RMB'000	Mining structures RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>COST</b>								
At January 1, 2014	1,078,472	4,690,058	1,914,767	8,890,372	25,767,489	727,045	16,593,654	59,661,857
Exchange re-alignment	(87,567)	(40,686)	—	(271,787)	(753,045)	—	(121,220)	(1,274,305)
Acquisition of Ashton Coal Mines Limited (note 46)	124,856	4,312	—	46,519	70,355	—	—	246,042
Additions	—	144,678	—	59,058	24,051	—	5,933,308	6,161,095
Transfers	18,683	285,957	1,330,184	1,122,330	5,450,621	21,082	(8,228,857)	—
Reclassification	(1,783)	1,312	—	(8,925)	9,396	—	—	—
Disposals	—	(7,286)	(12,248)	(14,997)	(259,980)	(18,417)	(54,111)	(367,039)
At December 31, 2014 and January 1, 2015	1,132,661	5,078,345	3,232,703	9,822,570	30,308,887	729,710	14,122,774	64,427,650
Exchange re-alignment	(65,798)	(29,602)	—	(247,545)	(555,525)	(18)	(24,397)	(922,885)
Acquisition of Donghua (note 47)	—	318,349	—	—	307,658	16,167	1,640	643,814
Additions	1,869	16,591	39,793	1,685,923	4,772,563	82,124	5,777,005	12,375,868
Transfer	28,933	215,304	186,648	1,557,272	923,425	8,054	(2,919,636)	—
Reclassification	(18,123)	(1,418,218)	1,487,907	40,314	(2,767,808)	2,675,928	—	—
Disposals	—	(30,080)	(40,663)	(273,997)	(4,458,770)	(1,313,257)	(794)	(6,117,561)
Asset classified as held for sale	(351,902)	(53,946)	—	(2,290,578)	(3,248,379)	—	—	(5,944,805)
At December 31, 2015	727,640	4,096,743	4,906,388	10,293,959	25,282,051	2,198,708	16,956,592	64,462,081
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>								
At January 1, 2014	—	2,108,459	1,194,095	3,119,162	10,913,272	430,361	—	17,765,349
Exchange re-alignment	—	(7,482)	—	(70,416)	(221,275)	—	—	(299,173)
Provided for the year	—	176,150	162,189	527,544	2,174,317	38,555	—	3,078,755
Reclassification	—	225	—	(9,621)	9,396	—	—	—
Eliminated on disposals	—	(5,200)	(9,084)	(14,769)	(244,756)	(18,084)	—	(291,893)
At December 31, 2014 and January 1, 2015	—	2,272,152	1,347,200	3,551,900	12,630,954	450,832	—	20,253,038
Exchange re-alignment	—	(7,336)	—	(63,990)	(197,306)	(4)	—	(268,636)
Provided for the year	—	165,971	201,005	563,340	2,599,385	212,875	—	3,742,576
Reclassification	—	(1,021,237)	938,604	(42,071)	(1,437,944)	1,562,648	—	—
Eliminated on disposals	—	(2,754)	—	(15,244)	(2,092,619)	(611,222)	—	(2,721,839)
Asset classified as held for sale depreciation	—	(23,183)	—	(581,828)	(1,554,017)	—	—	(2,159,028)
At December 31, 2015	—	1,383,613	2,486,809	3,412,107	9,948,453	1,615,129	—	18,846,111
<b>CARRYING VALUE</b>								
At December 31, 2015	727,640	2,713,130	2,419,579	6,881,852	15,333,598	583,579	16,956,592	45,615,970
At December 31, 2014	1,132,661	2,806,193	1,885,503	6,270,670	17,677,933	278,878	14,122,774	44,174,612

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 24. PROPERTY, PLANT AND EQUIPMENT (continued)

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than construction in progress and freehold land:

Buildings	8 to 35 years
Railway structures	15 to 25 years
Plant, machinery and equipment	2.5 to 25 years
Transportation equipment	6 to 40 years

Transportation equipment includes vessels, harbor works and crafts which are depreciated over the estimated useful lives of 18 and 40 years respectively.

The mining structures include the main and auxiliary mine shafts and underground tunnels. Depreciation is provided to write off the cost of the mining structures using the units of production method based on the estimated production volume for which the structure was designed and the contractual period of the relevant mining rights.

During the year ended December 31, 2015, the directors conducted a review of the Group's mining assets and determined that no assets were impaired due to physical damage and technical obsolescence (2014: nil).

At December 31, 2015, property, plant and equipment with carrying amount of approximately RMB2,819,351,000 (2014: RMB3,134,300,000) have been pledged to secure bank borrowings of the Group (note 36).

At December 31, 2015, the carrying amount of property, plant and equipment held under finance leases of the group was RMB181,539,000 (2014: RMB227,391,000).



YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

25. GOODWILL

	<u>2015</u> RMB'000	<u>2014</u> RMB'000
<b>NET CARRYING VALUE</b>		
At January 1	2,232,751	2,460,551
Acquisition of Donghua (note 47)	409,204	—
Exchange re-alignment	(18,954)	(34,622)
Derecognition	—	(193,178)
Impairment loss	(326,918)	—
At December 31	<u>2,296,083</u>	<u>2,232,751</u>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	At December 31,	
	<u>2015</u> RMB'000	<u>2014</u> RMB'000
<b>Mining</b>		
- Jining II	10,106	10,106
- Shandong Yanmei Shipping Co., Ltd	10,046	10,046
- Heze	35,645	35,645
- Shanxi Group	145,613	145,613
- Yancoal Resources	288,538	306,224
- Syntech	20,679	21,947
- Premier Coal and Wesfarmers Char	12,860	13,648
- Xintai	653,837	653,837
- Beisu and Yangcun	712,214	712,214
<b>Coal Railway Transportation</b>		
- Railway Assets	97,240	97,240
<b>Electricity and heat supply</b>		
- Hua Ju Energy	239,879	239,879
<b>Machinery manufacturing</b>		
- Donghua	409,204	—
Impairment loss	<u>(339,778)</u>	<u>(13,648)</u>
	<u>2,296,083</u>	<u>2,232,751</u>

The recoverable amount of the cash generating units is assessed by management at the operating segment level. Business performance is reviewed by management on a mine by mine basis and each mine is considered to be a separate cash generating unit.

The recoverable amounts of goodwill from each of the above cash generating units have been determined on the basis of value in use calculations. Value in use has been determined using a discounted cash flow model. The recoverable amounts are based on certain key assumptions on discount rates, growth rates, selling prices, foreign currency exchange rates, mining reserves and mining resources and direct cost.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 25. GOODWILL (continued)

In determining the value assigned to each key assumption, management has used external sources of information and utilised the expertise of external consultants and experts within the Group to validate entity specific assumptions such as mining reserves and mining resources. Furthermore, in estimating future coal prices, the Group receives long term forecast coal price data from multiple externally verifiable sources when determining its coal price forecasts, making adjustments for specific coal quality factors. The long term forecast exchange rate is based on externally verifiable sources. Production and capital costs are based on the Group's estimate of forecasted geological conditions, stage of existing plant and equipment and future production levels. This information is obtained from internally maintained budgets, the five year business plan, life of mine models and project evaluations performed by the Group in its ordinary course of business.

The cash flow model was based on financial budgets approved by management covering a 5-year period with an assumption of post-tax discount rate of 10.5% (2014: 8-11%). It represent an estimate of the rate the market would apply having regard to the time value of money and the risks specific to the asset. Externally verifiable data received by the Group validates this assumption. The recoverable amount is also dependent on the life of mines (10 to 25 years) (2014: 10 to 25 years). This is calculated based on the Group's annual coal production forecast for each mine and mining reserves and mining resources. The cash flows beyond the 5-year period are extrapolated using a zero percent growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of each of the above units to exceed the recoverable amount of each of the above units.

The goodwill of RMB193,178,000 represents the goodwill recognised on the previous 60% acquisition of Ashton Joint Operation when acquiring Yancoal Resources, intermediate holding company of Ashton Joint Operation. During the year ended December 31, 2014, the Group further acquired 10% interest of Ashton Joint Operation which becomes a wholly owned subsidiary of the Group. The goodwill attributable to Ashton Joint Operation of RMB193,178,000 was included as part of consideration of Ashton Coal Mines Limited. At the acquisition date, the fair value of goodwill attributable to Ashton Joint Operation was adjusted to nil when the management determines the fair value of Ashton Coal Mines Limited cash generating unit (note 46). The goodwill of RMB193,178,000 has been de-recognised during the year ended December 31, 2014.

There is an indication for impairment of goodwill due to coal price decline significantly from the year 2014 to year 2015. For the impairment testing of goodwill, cash flow projections during the budget period are based on the budgeted revenue and expected gross margins during the budget period and the raw materials price inflation during the budget period. Expected cash inflows/outflows have been determined based on past performance and management's expectations for the market development. Under the discounted future cash flows that are dependent on the following unobservable inputs: forecast sales volumes and coal prices. The forecast sales volumes are based on the internally maintained budgets, five year business plan and life of mine models. The forecast coal prices are based on external data consistent with the data used for impairment assessments. The risk-adjusted post-tax discount rate used to determine the future cash flows is 8.19%. As at December 31, 2015 for Wenyu, the carrying amount of goodwill is RMB326,918,000 (2014: RMB653,836,000). As the cash generating unit of Wenyu has been reduced to its recoverable amount of RMB3,232,684,000 (2014: RMB3,640,431,000). During the year ended December 31, 2015, impairment loss on goodwill of RMB326,918,000 (2014: Nil) was recognised and included under "selling, general and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income and attributed to the Group's mining segment.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

26. INVESTMENTS IN SECURITIES

The investments in securities represents available-for-sale equity investments:

	At December 31,	
	2015	2014
	RMB'000	RMB'000
<b>Available-For-Sale Equity Investments</b>		
Equity securities listed on the SSE Stated at fair value through other comprehensive income	610	249,404
Equity securities listed on the NEEQ Stated at fair value through other comprehensive income	797,720	—
Unlisted equity securities	146,080	139,360
	<u>944,410</u>	<u>388,764</u>

The investment in equity securities listed on the Shanghai Stock Exchange (“SSE”) of the Company included Jiangsu Lianyungang Port Corporation Limited which is stated at the fair values as at December 31, 2015 of RMB610,000 (2014: RMB13,616,000). The Company has disposed all of the equity securities of Shanghai Shenergy Company Limited during the year.

The investment in equity securities listed on the National Equities Exchange and Quotation System (“NEEQ”) included Qilu Bank which is stated at the fair value as of December 31, 2015 of RMB797,720,000. The Company’s investments in equity securities listed on the NEEQ, which are stated at fair value through other comprehensive income, are subject to a 5-year-lock-up-period.

The investments in equity securities listed on the SSE and NEEQ are carried at fair value determined according to the quoted market prices in active market.

The unlisted securities are stated at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

27. INTERESTS IN ASSOCIATES

	At December 31, 2015	2014
	RMB'000	RMB'000
Cost of investments in associates	2,768,487	2,503,927
Share of post-acquisition profit and other comprehensive income, net of dividends	495,277	451,702
Carrying amount	<u>3,263,764</u>	<u>2,955,629</u>

Information of major associates is as follows:

Name of associate	Place of establishment and operation	Class of shares held	Principal activity	At December 31,	
				2015	2014
				Interest held	Interest held
Huadian Zouxian Power Generation Company Limited ("Huadian Zouxian")	PRC	Registered Capital	Electricity generation business (i)	30%	30%
Yankuang Group Finance Company Limited	PRC	Registered Capital	Financial services	25%	25%
Shaanxi Future Energy Chemical Corp. Ltd ("Shaanxi Chemical")	PRC	Registered Capital	Production and sales of chemical products, oil and coal (ii)	25%	25%
Shengyang Wood	PRC	Registered Capital	Artificial board, CCF processing	39.77%	39.77%
Jiemei Wall Material	PRC	Registered Capital	Coal refuse baked brick	20%	20%
Newcastle Coal Infrastructure Group Pty Ltd ("NCIG")	Australia	Registered Capital	Coal terminal	27%	27%
Shanghai CIFCO Futures Co., Ltd	PRC	Registered Capital	Trading and consultation of futures	33%	—

All of the above associates have been accounted for using equity method in the consolidated financial statements. Except for Newcastle Coal Infrastructure Group Pty Ltd, all associates are held by the Company directly.

- (i) Huadian Zouxian is an important strategic partner of the Group
- (ii) Shaanxi Chemical is an important strategic partner to develop future energy business of the Group

All of the associates are private companies whose quoted market price is not available.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

27. INTERESTS IN ASSOCIATES (continued)

The financial information in respect of the Group's associates is set out below:

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Total assets	35,275,971	30,100,061
Total liabilities	(25,449,263)	(20,127,032)
Net assets	9,826,708	9,973,029
Revenue	8,483,270	5,596,882
Profit for the year	1,703,765	654,710
Other comprehensive (loss)/income	(328,598)	44,852
Proportion of the Group's ownership interest	20% - 39.77%	20% - 39.77%
Group's share of associates' net assets	3,263,764	2,955,629
Group's share of profit of associates for the year	502,364	310,604
Group's share of other comprehensive income of associates for the year	7,084	11,213

Summarized financial information in respect of the Group's material associate is set out below:

	Huadian Zouxian		Shaanxi Chemical	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	463,329	540,291	1,518,418	654,572
Non-current assets	5,304,792	5,519,769	15,711,494	12,346,714
Current liabilities	(1,794,313)	(1,083,392)	(6,949,817)	(5,080,297)
Non-current liabilities	(540,144)	(1,014,144)	(3,862,724)	(2,094,735)
Revenue	4,546,121	3,888,844	1,469,590	895,836
Expenses	(3,178,421)	(3,069,380)	(814,240)	(466,492)
Income tax expenses	(343,650)	(205,119)	(92,568)	(47,942)
Profit for the year	1,024,050	614,345	562,782	381,402
Other comprehensive income for the year	—	—	28,336	44,852
Total comprehensive income for the year	1,024,050	614,345	591,118	426,254
Dividends shared by the Group and received from the associate during the year	465,873	178,645	—	—

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

27. INTERESTS IN ASSOCIATES (continued)

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate in respect of Huadian Zouxian and Shaanxi Chemical recognized in the consolidated financial statements:

	Huadian Zouxian		Shaanxi Chemical	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Net assets of the associate's attributable to owners	<u>3,433,664</u>	<u>3,962,524</u>	<u>6,417,371</u>	<u>5,826,254</u>
Proportion of the Group's ownership interest	<u>30%</u>	<u>30%</u>	<u>25%</u>	<u>25%</u>
Carrying amount of the Group's interest in the associate	<u>1,030,099</u>	<u>1,188,757</u>	<u>1,604,343</u>	<u>1,456,564</u>

Aggregate information of associates that are not individually material:

	At December 31,	
	2015 RMB'000	2014 RMB'000
The Group's share of profit and total comprehensive income	<u>54,453</u>	<u>30,950</u>
Aggregate carrying amount of the Group's interests in these associates	<u>629,321</u>	<u>310,308</u>

28. LONG TERM RECEIVABLES

	At December 31,	
	2015 RMB'000	2014 RMB'000
<b>Current asset</b>		
- Loan to a joint venture (i)	1,565,194	1,705,757
<b>Non-current assets</b>		
- Others (ii)	<u>247,339</u>	<u>302,517</u>
	<u>1,812,533</u>	<u>2,008,274</u>

- (i) Loan to a joint venture represented an unsecured loan to Middlemount Joint Venture of AUD331,075,000 (2014: AUD339,968,000). The loan bear normal commercial interest rate. From July 1, 2015, the shareholders of Middlemount agreed to make the loan interest-free for 18 months.
- (ii) Other long term receivables represented an investment in preference shares of a company for AUD15,320,000 (2014: AUD15,320,000) with cumulative dividends and investment in the long term bonds of a company for AUD31,500,000 (2014: AUD31,500,000) with floating interest rate.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 29. DEPOSITS MADE ON INVESTMENTS

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Shaanxi Coal Mine Operating Company (i)	117,926	117,926
Ordos Naryn River Mining Development Co., Ltd (ii)	1,000	1,000
	<u>118,926</u>	<u>118,926</u>

- (i) During 2006, the Company entered into a co-operative agreement with two independent third parties to establish a company for acquiring a coal mine in Shaanxi province for operations. The Company will have to invest approximately RMB196,800,000 in order to obtain 41% equity interest. As at December 31, 2015, the Company made a deposit of RMB117,926,000 (2014: RMB117,926,000) in relation to this acquisition. As at December 31, 2015, the relevant registration procedures to establish the new company are still in progress, and the establishment has not yet been completed.
- (ii) During 2013, the Company entered into a cooperation agreement with five independent third parties to set up a company, Ordos Naryn River Mining Development Co., Ltd. The Company agreed to contribute RMB5,000,000, representing 10% of its equity interest. At December 31, 2015, the Company have contributed RMB1,000,000 (2014: RMB1,000,000). The registration procedures of this company have not yet completed.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

30. INTERESTS IN JOINT VENTURES

At December 31,	
2015	2014
RMB'000	RMB'000
Share of net assets	130,867
	57,479

Information on major joint ventures is as follows:

Name of joint venture	Place of establishment and operation	Class of shares held	Principal activity	At December 31,			
				2015		2014	
				Voting power	Interest held	Voting power	Interest Held
Australian Coal Processing Holdings Pty Ltd	Australia	Ordinary shares	Investment holding	50%	90%	50%	90%
Middlemount Joint Venture	Australia	Ordinary shares	Coal mining and sales	50%	49.9997%	50%	49.9997%
Sheng Di Finlay Coal Processing Technology (Tianjin) Co., Ltd	China	Ordinary shares	Consultancy services for deep preprocess technology	50%	50%	50%	50%

All of the above joint ventures are accounted for using equity method in the consolidated financial statements. All of the joint ventures are private companies whose quoted market price is not available.

The Company, through a subsidiary, held 90% equity interest of the Australian Coal Processing Holding Pty Ltd. Under the shareholders agreement between the subsidiary and the remaining one shareholder, all major financial and operating policy decisions require a vote by directors who together represent shareholders holding 100% of the shares or a vote by shareholders who together hold 100% of the shares. Therefore decisions must be passed unanimously by directors or shareholders and the subsidiary's voting power is 50%.



YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

30. INTERESTS IN JOINT VENTURES (continued)

In 2013, the Company held 90% equity interest of Ashton Coal Mines Limited. Under the shareholders agreement between the subsidiary and the remaining one shareholder, all major financial and operating policy decisions require a unanimous resolution of the shareholders. Therefore, decisions must be passed unanimously by shareholders and the subsidiary's voting power is 50%.

On September 30, 2014, the Company, through a subsidiary, acquired the remaining 10% interest of Ashton Coal Mines Limited. The subsidiary now holds 100% (2014:100%) of the ordinary shares in Ashton Coal Mines Limited and has been fully consolidated in the Group (Note 46).

The Company, through Gloucester, held 49.9997% equity interest in Middlemount Joint Venture and decision must be passed unanimously by shareholders.

Middlemount joint venture is an important strategic partner to develop the business in Australia.

Sheng Di Finlay Coal Processing Engineering Technology (Tianjin) Co., Ltd was incorporated in December 2013 under a co-operative agreement between Tianjin Finlay Coal Processing Technology Co., Ltd and the Company.

The above joint ventures are indirectly held by the Company. Middlemount Joint Venture constituted a material impact to the Group. Summarized financial information in respect of the Middlemount Joint Venture is set out below:

	Middlemount Joint Venture At December 31,	
	2015	2014
	RMB'000	RMB'000
<b>Current portion:</b>		
Cash and cash equivalents	92,349	16,768
Other current assets	<u>317,829</u>	<u>322,019</u>
Total current assets	<u>410,178</u>	<u>338,787</u>
Other current liabilities	<u>(1,152,662)</u>	<u>(856,796)</u>
Total current liabilities	<u>(1,152,662)</u>	<u>(856,796)</u>
<b>Non-current portion:</b>		
Non-current assets	<u>6,321,898</u>	<u>6,630,534</u>
Non-current financial liabilities	<u>(3,533,373)</u>	<u>(3,826,623)</u>
Other non-current liabilities	<u>(1,973,444)</u>	<u>(2,030,865)</u>
Total non-current liabilities	<u>(5,506,817)</u>	<u>(5,857,488)</u>
Proportion of the Group's ownership interest	<u>49.9997%</u>	<u>49.9997%</u>
Carrying amount of the Group's interest in the joint venture	<u>36,295</u>	<u>127,518</u>

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

30. INTERESTS IN JOINT VENTURES (continued)

	Middlemount Joint Venture At December 31,	
	2015 RMB'000	2014 RMB'000
Revenue	2,076,282	1,919,079
Depreciation and amortization	(399,748)	(331,431)
Interest income	—	146
Interest expenses	(243,432)	(237,246)
Other expenses	<u>(1,795,685)</u>	<u>(1,992,913)</u>
Loss for the year	(362,583)	(642,365)
Other comprehensive gain	189,730	—
Total comprehensive loss	<u>(172,853)</u>	<u>(642,365)</u>
Proportion of the Group's ownership interest	49.9997%	49.9997%
The Group's share of loss	(181,290)	(321,180)
The Group's share of total comprehensive gain	94,865	—
Dividends received from joint ventures	—	—

Aggregate information of joint ventures that are not individually material:

	For the year ended December 31,	
	2015 RMB'000	2014 RMB'000
The Group's share of profit and total comprehensive income for the year	<u>10,832</u>	<u>351</u>
Aggregate carrying amount of the Group's interests in these joint ventures	<u>21,184</u>	<u>3,349</u>

As at December 31, 2015, the Group did not have any contingent liabilities or commitment with the joint ventures (2014: Nil).

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

31. INTERESTS IN JOINT OPERATIONS

Information on major joint operations is as follows:

<u>Name of joint operation</u>	<u>Place of establishment and operation</u>	<u>Principal activity</u>	<u>At December 31,</u>	
			<u>2015</u>	<u>2014</u>
			<u>Interest held</u>	<u>Interest held</u>
Boonal joint operation	Australia	Provision of a coal haul road and train load out facilities	50%	50%
Athena joint operation	Australia	Coal exploration	51%	51%
Ashton joint operation	Australia	Development and operation of open-cut and underground coal mines (Note 46)	N/A	N/A
Moolarben joint operation (Note)	Australia	Development and operation of open-cut and underground coal mines	81%	80%

The above joint operations are established and operated as unincorporated businesses and are held indirectly by the Company.

Note: The Group acquired 1% equity interest in Moolarben joint operation from another venture at a consideration of AUD19.3 million on March 30, 2015. Upon completion of the acquisition, the Group held 81% equity interest in Moolarben joint operation.

The financial information in respect of the Group's joint operations is set out below:

	<u>At December 31,</u>	
	<u>2015</u>	<u>2014</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Total assets	19,212,861	19,827,386
Total liabilities	(2,252,378)	(18,050,914)
Net assets	<u>16,960,483</u>	<u>1,776,472</u>
Revenue	10,939,146	5,062,557
Expenses	(4,094,665)	(7,471,415)
Profit (Loss) for the year	<u>6,844,481</u>	<u>(2,408,858)</u>
Other comprehensive income	—	—

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 32. ASSETS CLASSIFIED AS HELD FOR SALE

During the year, Yancoal Australia established a 100% owned subsidiary, Watagan Mining Company Pty Ltd (“Watagan”). On February 18, 2016, the Group executed a Bond Subscription Agreement, together with other agreements (the “Watagan Agreements”) that, on completion, will transfer the Group’s interest in three of its 100% owned NSW coal mining operations, being the Astar, Ashton and Donaldson coal mines (the “three mines”), to Watagan for a purchase price of approximately AUD1.3 billion (an amount equal to the book value of the three mines at completion).

On completion, under the terms of the Watagan Agreements, it was determined that upon issuance of the bonds the Group will lose control of Watagan. These powers will be transferred to the Bondholders under the terms of the Watagan Agreements as the Bondholders will be given control of Watagan’s board of directors via appointment of the majority of directors. Due to the Watagan transaction being near completion and the transaction is considered to be highly likely at December 31, 2015, the three mines are disclosed as Assets Held for Sale at that date.

While Watagan will be deconsolidated for accounting purposes, as a result of Yancoal Australia’s ongoing 100% equity ownership in Watagan, Watagan remains within Yancoal Australia’s tax consolidated group.

In applying the held for sale classification to the three mines as at December 31, 2015, the Group determined the fair value less costs to sell to be above the carrying value, and as a result no adjustment was recorded on classification as held for sale.

Fair value less costs to sell of the mines has been determined using a discounted cash flow model. The key assumptions to which the model is most sensitive includes coal prices, foreign exchange rates, production and capital costs, discount rate and coal reserves and resources. The Group has applied a post-tax discount rate of 11% to discount the forecast future attributable post-tax cash flows of the three underground mines reflecting the risks specific to the asset for which the future cash flow estimates have not been adjusted.

The Group performed various sensitivities to the determination of fair value which indicated a -10% coal price assumption across all periods would have resulted in the carrying value exceeding fair value by RMB723.3 million (AUD153 million) whilst an increase in the long term AUD:USD foreign exchange rate to 0.80 would have resulted in the carrying value exceeding fair value by RMB151.3 million (AUD32 million).

Together with the Bond Subscription Agreement, the Watagan Agreements include a:

- (i) 10 year Management and Mine Services Agreement appointing (1) Yancoal Australia as the exclusive provider of management services (being back office support functions) to the Watagan group; and (2) a 100% owned Yancoal Australia subsidiary as the exclusive provider of all mining management services (being all work directly concerned with the management of the operations of the three mines) to the Watagan group; and
- (ii) 10 year Marketing & Logistics Representation and Logistics Agreement appointing Yancoal Australia as (1) the sole and exclusive marketing and logistics representative of the Watagan group for the promotion, marketing, sale, transportation and handling of all saleable coal produced from the three mines and the purchase of any coal for the Watagan group from third parties; and (2) the sole and exclusive provider of infrastructure services and representative of the Watagan group in relation to management of the port and rail access and rail haulage contracts in relation to the three mines.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

32. ASSETS CLASSIFIED AS HELD FOR SALE (continued)

	<b>Carrying amounts RMB'000</b>
<i>Assets</i>	
Bank balances and cash	21,747
Other current assets	450,088
Property, plant and equipment, net	3,785,777
Intangible assets	3,178,192
Other non-current assets	304,716
Total assets classified as held for sale	<u>7,740,520</u>
<i>Liabilities</i>	
Transfer from provision for land subsidence, restoration, rehabilitation and environmental costs	145,717
Other current liabilities	209,287
Deferred tax liabilities	981,923
Other non-current assets	183,904
Total liabilities associated with assets classified as held for sale	<u>1,520,831</u>
Net assets classified as held for sale	<u>6,219,689</u>

Yancoal Australia would raise USD950 million in new debt funding through an issue of nine-year secured debt bonds to a consortium of financiers comprising BOCI Financial Products Limited, Bohai Harvest RST (Shanghai) Equity Investment Fund Management Co. Ltd. and Industrial Bank Co. Ltd. The bonds will be issued in two tranches of USD760 million (tranche 1) and USD190 million (tranche 2) by a newly established wholly owned subsidiary (Issuer) of Yancoal Australia Ltd. Yancoal's interest in the New South Wales mining assets of Ashton, Austar and Donaldson (Assets) will be transferred to and held by the Issuer.

As at March 31, 2016, Yancoal Australia has confirmed the satisfaction of the conditions precedent and financial close ("Financial Close") of such new financing arrangement to secure up to USD950 million via the issuance of the bonds. Among which, USD175 million of BOCI Asia Financial Products Limited's total proposed subscription of USD375 million is subject to the obtaining of its final credit approval; if such approval is not obtained by September 30, 2016, BOCI Asia Financial Products Limited's 2 commitment in respect of the USD175 million will be cancelled in full and the total amount raised under the financing will reduce to USD775 million.

Financial Close occurred with effect from March 31, 2016. On and from Financial Close, Yancoal Australia's interest in the New South Wales mining assets of Ashton, Austar and Donaldson will be held by Watagan.

The transaction was deemed to be completed on March 31, 2016. Yancoal Australia derecognized the assets and liabilities classified as held for sales since March 31, 2016 and no consideration was received from the loss of control of Watagan or three mines.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

33. BILLS AND ACCOUNTS PAYABLE

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Accounts payable	3,367,836	1,969,617
Bills payable	839,530	2,067,587
	<u>4,207,366</u>	<u>4,037,204</u>

The following is an aged analysis of bills and accounts payable based on the invoice dates at the balance sheet date:

	At December 31,	
	2015	2014
	RMB'000	RMB'000
1 - 90 days	2,815,938	1,979,699
91 - 180 days	612,221	1,815,913
181 - 365 days	434,315	103,260
Over 1 year	344,892	138,332
	<u>4,207,366</u>	<u>4,037,204</u>

The average credit period for accounts payable and bills payable is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

34. OTHER PAYABLES AND ACCRUED EXPENSES

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Customers' deposits	1,011,104	798,437
Accrued wages	654,876	870,699
Other taxes payable	174,133	142,389
Payables in respect of purchases of property, plant and equipment and construction materials	1,695,324	1,629,324
Accrued freight charges	59,034	66,048
Accrued repairs and maintenance	75,820	31,582
Staff welfare payable	625,156	319,180
Withholding tax payable	5,357	28,364
Deposits received from employees	90,817	24,258
Accrued land subsidence, restoration, rehabilitation and environmental costs	22,947	10,451
Interest payable	836,132	905,463
Payable on acquisition of Hao Sheng's equity	2,519,313	2,519,313
Provision on Ashton research and development project	—	115,400
Others	1,239,294	1,275,782
	<u>9,009,307</u>	<u>8,736,690</u>

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

35. PROVISION FOR LAND SUBSIDENCE, RESTORATION, REHABILITATION AND ENVIRONMENTAL COSTS

	<u>2015</u>	<u>2014</u>
	RMB'000	RMB'000
Balance at January 1	3,430,007	3,853,708
Exchange re-alignment	(38,111)	(43,332)
Additional provision in the year	1,499,492	1,225,385
Transfer to assets held for sale (note 32)	(145,717)	—
Acquisition of Ashton Coal Mines Limited (note 46)	—	3,570
Utilization of provision	<u>(1,545,932)</u>	<u>(1,609,324)</u>
Balance at December 31	<u>3,199,739</u>	<u>3,430,007</u>
Presented as:		
Current portion	2,616,998	2,900,054
Non-current portion	<u>582,741</u>	<u>529,953</u>
	<u>3,199,739</u>	<u>3,430,007</u>

Provision for land subsidence, restoration, rehabilitation and environmental costs has been determined by the directors based on their best estimates. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term.

Mine sites in the PRC

Under the rules and regulations in the PRC, the Group is required to pay to local government authorities for the compensation of rehabilitating mine sites. The rehabilitation provision presents the compensation to be paid to local government authorities which are based on internal estimation of expected total rehabilitation charges with the actual quantity of coal mined. Local government authorities would request the Group for the compensation from time to time where the management expected that the rehabilitation cost will be fully paid when the mine sites cease operation.

Mine sites in Australia

Subsidiary in Australia makes full provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis at the time of developing the and installing and using those facilities. The rehabilitation provision represents the present value of rehabilitation costs relating to mine sites, which are expected to be incurred up to Year 2032. These provisions have been created based on managements' internal estimates. Actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in turn, will depend upon future coal prices.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

35. PROVISION FOR LAND SUBSIDENCE, RESTORATION, REHABILITATION AND ENVIRONMENTAL COSTS  
(continued)

Generally estimated in accordance with the expected costs of land rehabilitation

In 2013, 2014 and 2015, the Group expensed approximately RMB1,390.6 million, RMB1,225.4 million and RMB1,499.5 million, respectively, of our provisions for land subsidence, restoration, rehabilitation and environmental protection as determined by our directors based on estimations of various factors, including past occurrences of land subsidence.

The provisions that the Group made are only estimates and may be adjusted to reflect the actual effects of our mining activities on the land above and surrounding our mining sites

The rehabilitation of mining sites is another priority of the PRC government

Provisions for land subsidence, restoration, rehabilitation and environmental costs are determined by our management based on past experience, its estimate of current and future costs and predictions for government policies.



YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

36. BORROWINGS

	At December 31,	
	2015	2014
	RMB'000	RMB'000
<b>Current liabilities</b>		
Bank borrowings		
- Unsecured borrowings (i)	8,263,113	5,597,568
- Secured borrowings (ii)	5,625,915	233,953
Finance lease liabilities (iv)	17,522	40,585
Guaranteed notes (v)	9,996,667	4,999,583
	<u>23,903,217</u>	<u>10,871,689</u>
<b>Non-current liabilities</b>		
Bank borrowings		
- Unsecured borrowings (i)	3,469,900	7,828,178
- Secured borrowings (ii)	24,501,998	24,731,562
Loans pledged by machineries (iii)	1,800,000	1,800,000
Finance lease liabilities (iv)	128,183	166,051
Guaranteed notes (v)	15,676,507	16,040,608
	<u>45,576,588</u>	<u>50,566,399</u>
Total borrowings	<u>69,479,805</u>	<u>61,438,088</u>

(i) Unsecured borrowings are repayable as follows:

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Within one year	8,263,113	5,597,568
More than one year, but not exceeding two years	1,515,972	5,035,222
More than two years, but not more than five years	1,953,928	2,782,956
More than five years	—	10,000
Total	<u>11,733,013</u>	<u>13,425,746</u>

At December 31, 2015, short-term borrowings of the Company amounting to RMB6,099,020,000 (2014: RMB2,827,850,000). Four short-term borrowings of RMB4,089,020,000 (USD629,700,000) are denominated in foreign currency with interest rates at three-months LIBOR plus a margin of 1.26%-1.40% per annum, approximately 1.80% - 1.94% per annum (2014: three-months LIBOR plus a margin of 2.75% per annum, approximately 3.12% per annum). The remaining short-term borrowings of RMB2,010,000,000 carried interest at 4.35% - 6.00% per annum (2014: 5.40% - 6.00% per annum).

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 36. BORROWINGS (continued)

(i) Unsecured borrowings are repayable as follows: (continued)

Long-term borrowings of the Company amounting to RMB 4,679,434,000 (2014: RMB8,727,592,000) with RMB2,151,106,000 payable within one year. Long-term borrowings of RMB1,237,400,000 carried interest at a range of 5.54% - 6.15% per annum (2014: 5.54% - 6.40% per annum) while the remaining RMB1,290,928,000 carried interest at three-months LIBOR plus a margin of 1.20% - 2.40% per annum (2014: three-months LIBOR plus a margin of 1.20% - 3.45% per annum).

The long-term borrowing of Zhongyin Financial, which is denominated in foreign currency, amounting to RMB954,559,000 (USD147,000,000) (2014: RMB911,731,000 (USD150,000,000)), with RMB12,987,000 (USD 2,000,000) payable within one year. The loan term is 36 months and carried interest at three-month LIBOR plus a margin of 2.60%, approximately 3.14% per annum (2014: three-month LIBOR plus a margin of 2.60%, approximately 2.85% per annum).

(ii) Secured borrowings are repayable as follows:

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Within one year	5,625,915	233,953
More than one year, but not exceeding two years	5,788,326	5,736,318
More than two years, but not more than five years	7,491,494	3,090,294
More than five years	11,222,178	15,904,950
Total	<u>30,127,913</u>	<u>24,965,515</u>

As at December 31, 2015, secured borrowings of Yancoal Australia are amounting to RMB17,766,250,000 (2014: RMB16,761,370,000). One of the secured borrowings obtained by the Group for the purpose of settling the consideration in respect of acquisition of Yancoal Resources amounting to RMB17,730,118,000 (USD2,740,000,000). Such borrowings carried interest at three-month LIBOR plus a margin of 2.8% per annum, approximately 3.34% per annum (2014: three-month LIBOR plus a margin of 2.8% per annum, approximately 3.04% per annum).

Part of the borrowings arose from the acquisition of Gloucester amounting to RMB36,132,000 (USD5,584,000) (2014: RMB64,347,000 (USD10,519,000)), with RMB33,809,000 payable within one year. It carried interest at 5.68% (2014: 5.68% per annum). It is pledged by bank deposit (note 17), intangible assets (note 23), and property, plant and equipment (note 24) and other assets in Yancoal Resources.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

36. BORROWINGS (continued)

(ii) Secured borrowings are repayable as follows: (continued)

At December 31, 2015, secured borrowings of the Company is amounting to RMB5,096,160,000 (2014: RMB1,400,000,000). During the year, two additional secured borrowings which amounted to RMB649,360,000 (USD100,000,000) were obtained by the Company. Such borrowings were denominated in foreign currency with interest rate at six-month LIBOR plus a margin of 3.20%, approximately 3.97% per annum. It was pledged by bank acceptances of the Company

During 2015, another additional secured borrowing which amounted to RMB3,246,800,000 (USD500,000,000) was denominated in foreign currency with interest rate at six-month LIBOR plus a margin of 2.10%, approximately 2.87% per annum. It is pledged by 520,000,000 shares of the Company's A shares owned by Yankuang Group.

The remaining secured borrowings of RMB1,200,000,000 (2014: RMB1,400,000,000), with RMB300,000,000 payable within one year, carried interest at 6.98% per annum (2014: 7.04% per annum). The interest rate will be adjusted at each payment days in accordance with the benchmark of 5 years lending rate published by the PBOC plus 10%. It is guaranteed by the Company and; counter-guaranteed by the Parent Company and secured by 46.67% ordinary shares of Heze Neng Hua.

At December 31, 2015, secured borrowings of Yancoal International is amounting to RMB7,240,120,000 (USD1,115,000,000) (2014: RMB6,731,799,000 (USD1,100,000,000)), with RMB5,292,106,000 (USD815,000,000) payable in one year. The remaining secured borrowings amounted to RMB1,948,014,000 carried interest rate at three-month LIBOR plus a margin of ranged 1.10% - 3.00%, approximately 1.64%-3.54% per annum. These borrowings are guaranteed by the Parent Company and its stand by letter of credits.

Premier Coal Limited and Premier Holdings Pty., Ltd., the subsidiaries of the Company, signed a loan agreement with their client Synergy which carried with interest rate of 8.7%. During the Loan Period, Synergy agrees to loan to Premier a portion of the contract price for every tonne of coal supplied by Premier to Synergy under the coal supply agreement during the loan period. It is secured by total assets of Premier Coal Limited including its interest in the Coal Mine. At December 31, 2015, the balance of the loan is RMB25,383,000 (AUD5,369,000) (2014: RMB7,999,000 (AUD1,594,000)).

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

36. BORROWINGS (continued)

(iii) Loans pledged by machineries are repayable as follows:

	At December 31,	
	2015	2014
	RMB'000	RMB'000
<b>Minimum lease payments</b>		
Within one year	121,805	121,472
More than one year, but not exceeding two years	121,805	121,472
More than two years, but not exceeding five years	1,884,050	2,006,188
	2,127,660	2,249,132
Less: Future finance charges	(327,660)	(449,132)
Present value of lease payments	<u>1,800,000</u>	<u>1,800,000</u>
	2015	2014
	RMB'000	RMB'000
<b>Present value of minimum lease payments</b>		
More than one year, but not exceeding two years	200,000	—
More than two years, but not exceeding five years	1,600,000	1,800,000
	1,800,000	1,800,000
Less: Amounts due within one year and included in current liabilities	—	—
Amounts due after one year and included in non-current liabilities	<u>1,800,000</u>	<u>1,800,000</u>

At December 31, 2015, a loan of RMB1,800,000,000 (December 31, 2014: RMB 1,800,000,000) carried interest at lending rate of 3-5 years loan published by the PBOC plus a margin of 4% per annum, approximately 8.75% per annum (December 31, 2014: approximately 10%) and is pledged by machineries of the Group.

(iv) Finance lease liabilities are repayable as follows:

	At December 31,	
	2015	2014
	RMB'000	RMB'000
<b>Minimum payments</b>		
Within one year	51,733	54,268
More than one year, but not exceeding two years	81,286	54,425
More than two years, but not exceeding five years	50,494	129,560
More than five years	—	—
	183,513	238,253
Less: Transfer to assets held for sale	(9,378)	—
Less: Future finance charges	(28,430)	(31,617)
Present value of lease payments	<u>145,705</u>	<u>206,636</u>

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

36. BORROWINGS (continued)

(iv) Finance lease liabilities are repayable as follows: (continued)

	At December 31,	
	2015	2014
	RMB'000	RMB'000
<b>Present value of minimum payments</b>		
Within one year	17,522	40,585
More than one year, but not exceeding two years	79,107	53,052
More than two years, but not exceeding five years	49,076	112,999
More than five years	—	—
	<u>145,705</u>	<u>206,636</u>
Less: Amounts due within one year and included in current liabilities	<u>(17,522)</u>	<u>(40,585)</u>
Amounts due after one year and included in non-current liabilities	<u>128,183</u>	<u>166,051</u>

Finance lease liabilities of RMB145,705,000 (AUD30,820,000) (2014: RMB206,636,000 (AUD41,184,000)) was obtained from the acquisition of Gloucester in 2014, which carried interest at 5.16% per annum (2014: 5.16% per annum).

(v) Guaranteed notes are detailed as follows:

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Guaranteed notes denominated in RMB repayable within one year	9,996,667	4,999,583
Guaranteed notes denominated in USD repayable within two to five years	2,173,815	2,753,918
Guaranteed notes denominated in RMB repayable within two to five years	2,934,850	2,928,950
Guaranteed notes denominated in USD repayable over five years	3,568,951	3,365,899
Guaranteed notes denominated in RMB repayable over five years	<u>6,998,891</u>	<u>6,991,841</u>
	<u>25,673,174</u>	<u>21,040,191</u>

The above USD guaranteed notes were issued by a subsidiary of the Company on May 16, 2012. Guaranteed notes with par value of USD450,000,000 and USD550,000,000 will mature in 2017 and 2022 with interest rate 4.461% and 5.730% per annum respectively. At October 21, 2015, the Company redeemed the notes with par value of USD115,000,000 which mature in 2017. As at December 31, 2015, the remaining USD guaranteed notes amount to RMB5,742,766,000 with par value of USD885,000,000 (2014: RMB6,119,817,000 with par value of USD1,000,000,000). The notes are unconditionally secured by the Company and the respective security is non-cancellable. The notes have been issued and sold in Hong Kong Exchange and Clearing Limited to institutional investors.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

36. BORROWINGS (continued)

(v) Guaranteed notes are detailed as follows: (continued)

In 2012, with the approval from China Securities Regulatory Commission, the Company had issued RMB notes with par value of RMB300,167,000 and RMB4,699,833,000 to the public and institutional investors respectively. An unconditional and irrecoverable corporate guarantee was provided by the Parent Company on the RMB notes. At December 31, 2015, RMB notes of RMB4,971,000,000 (2014: RMB4,965,000,000) included notes of RMB3,973,800,000 (2014: RMB3,969,800,000) with a maturity period of 10 years and interest rate of 4.95% per annum and notes of RMB997,200,000 (2014: RMB995,200,000) with a maturity period of 5 years and interest rate of 4.20% per annum. As at December 31, 2015, there was no redemption on the notes.

In 2014, with the approval from China Securities Regulatory Commission, the Company was allowed to issue 5-year RMB notes at RMB1,950,000,000 with interest rate of 5.92% per annum and 10-year RMB notes at RMB3,050,000,000 with interest rate of 6.15% per annum. At December 31, 2015, the 5-year RMB notes and 10-year notes are amounted to RMB1,937,650,000 (2014: RMB 1,933,750,000) and RMB3,025,092,000 (2014: RMB3,022,041,000) respectively. As at December 31, 2015, there was no redemption on the notes.

In 2014, with the approval from China Securities Regulatory Commission, the Company was allowed to issue 1-year RMB notes in the PRC at RMB 5,000,000,000 with interest rate 5.59% per annum. As at December 31, 2015, such RMB notes were fully repaid.

In 2015, the Company had issued 2015 first tranche short-term notes at par value RMB 5,000,000,000 with 1 year maturity and interest rate of 5.19% per annum. At December 31, 2015, such RMB short-term note amount to RMB4,998,333,000. As at December 31, 2015, there was no redemption on the short-term note.

In 2015, with the approval from the National Association of Financial Market Institutional Investors, the Company was allowed to issue RMB super-short-term notes in PRC with an aggregate amount of RMB20,000,000,000. During 2015, the Company had issued 2015 first tranche super-short-term notes with par value of RMB2,500,000,000 and 2015 second tranche super-short-term notes with par value of RMB2,500,000,000. Both super-short-term notes had 270 days maturity and interest rate of 4.20% per annum. At December 31, 2015, such super-short-term notes amount to RMB4,998,333,000. As at December 31, 2015, there was no redemption on the super-short-term notes.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

37. DERIVATIVE FINANCIAL INSTRUMENTS

	At December 31,	
	2015	2014
	RMB'000	RMB'000
<b>Current assets</b>		
Derivatives used for cash flow hedging:		
- Forward foreign exchange contracts	—	359
Total current assets	<u>—</u>	<u>359</u>
<b>Current liabilities</b>		
Derivatives used for cash flow hedging:		
- Forward foreign exchange contracts	4,593	2,621
- Collar option	—	78,317
	<u>4,593</u>	<u>80,938</u>
Financial liability at fair value through profit or loss		
- Future contracts	849	664
Total current liabilities	<u>5,442</u>	<u>81,602</u>

As at 31 December 2015, the outstanding sell USD contracts are hedging highly probable forecast sales of coal, whereas the outstanding buy AUD and USD contracts relate to the settlement of RMB term deposits. The contracts are timed to settle when the RMB term deposits mature. There were also outstanding sell AUD and buy EUR contracts which relate to settlement of EUR purchases.

The outstanding sell USD contracts are hedging highly probable forecast sales of coal. The contracts are timed to mature when funds for coal sales are forecasted to be received.

During the year ended December 31, 2015, the Group entered into futures contract to sell specified amount of methanol. The objective of entering into the futures contract is to reduce the related volatility of methanol selling price and thereby assist in risk management of the Group. The outstanding futures contract are hedging highly probable methanol transaction price.

As at December 31, 2015, the outstanding notional amount of futures contract to sell methanol was approximately RMB 2,781,000 whilst as at December 31, 2014, the futures contract to sell thermal coal, the outstanding notional amount was RMB 3,287,000.

For the year ended December 31, 2015, the ineffective hedging portion of the changes in fair values of the forward foreign exchange contracts of approximately RMB284,075,000 (2014: RMB1,297,843,000) was recognized as selling, general and administrative expenses in the consolidated income statement. The effective hedging portion was recognized as current portion of derivatives financial instruments in the consolidated balance sheet.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

38. CONTINGENT VALUE RIGHTS SHARES LIABILITIES

	<u>2015</u> RMB'000	<u>2014</u> RMB'000
Balance at January 1	—	1,408,729
Change in fair value recognised in consolidated income statement	—	18,314
Exchange re-alignment	—	(53,520)
Share repurchase	—	(1,373,523)
Balance at December 31	<u>—</u>	<u>—</u>

In 2012, Yanzhou Coal Australia issued 87,645,184 contingent value rights shares as consideration for the acquisition of Gloucester. The purpose of the issuance of CVR shares is to protect the original shareholders of Gloucester from the fluctuation of the share price of the Yancoal Australia after the merger. If the weighted average price of the last 3 months in the next 18 months after the acquisition is lower than AUD6.96 per share, the CVR shares will be redeemed by cash (or shares of Yancoal Australia held by the Company at the discretion of Yancoal Australia) at guaranteed price of AUD6.96 per share. The redemption price will not exceed AUD3 per share. The holders of the CVR shares do not have the power to vote at the shareholders meeting (unless required by the listing rules of the ASX). Also, the holders of the CVR shares are not entitled to any dividend, right to allot the new and bonus shares that are distributed or issued by Yancoal Australia. The Company are committed to the obligations related to the issuance of the CVR shares by Yancoal Australia.

On March 4, 2014, the CVR shares were repurchased for cash of AUD262,936,000, representing the market value of AUD3 per CVR share.



YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

39. LONG-TERM PAYABLE AND PROVISION

	At December 31,	
	2015	2014
	RMB'000	RMB'000
<b>Current liabilities</b>		
- Deferred payment for acquisition of interests in Minerva (i)	2,281	2,509
- Mining right compensation fee payable (ii)	396,285	396,285
	<u>398,566</u>	<u>398,794</u>
<b>Non-current liabilities</b>		
- Deferred payment for acquisition of interests in Minerva (i)	—	2,165
- Mining right compensation fee payable (ii)	396,285	792,569
- Others (iii)	234,747	324,216
	<u>631,032</u>	<u>1,118,950</u>
Total	<u>1,029,598</u>	<u>1,517,744</u>

- (i) The carrying value of the deferred payment for acquisition of interests in Minerva is based on cash flows discounted using a rate of 7.5% (2014:7.5%).
- (ii) Mining right compensation fee payable is provided in accordance with the Chinese government legislation on mining right compensation fee. The amount is payable by the Company by instalment from 2015 to 2017.
- (iii) Other non-current liabilities mainly comprised of provision for marketing service fee of RMB15,967,000 (2014:RMB30,683,000) and provision for forecasted excessive supply for port and rail contracts of RMB191,322,000 (2014:RMB231,546,000), both arising from the acquisition of Gloucester.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

40. DEFERRED TAXATION

	Available- for-sale investment RMB'000	Accelerated tax depreciation RMB'000	Fair value adjustment on mining rights (mining reserves) RMB'000	Temporary differences on income and expenses recognized RMB'000	Tax losses RMB'000	Cash flow hedge reserve RMB'000	Total RMB'000
Balance at January 1, 2014	(23,455)	(522,019)	(5,423,638)	895,770	2,365,673	346,310	(2,361,359)
Exchange re-alignment	—	6,481	237,010	(104,443)	(284,403)	(71,300)	(216,655)
(Charge) credit to other comprehensive income	(19,137)	—	—	—	—	394,986	375,849
(Charge) credit to the consolidated income statement (note 12)	—	350,234	(110,570)	(12,019)	99,715	—	327,360
Balance at December 31, 2014 and January 1, 2015	(42,592)	(165,304)	(5,297,198)	779,308	2,180,985	669,996	(1,874,805)
Exchange re-alignment	—	9,558	184,065	(50,897)	(187,310)	(71,819)	(116,403)
Acquisition of Donghua	—	—	—	42,158	—	—	42,158
Credit to other comprehensive income	38,768	—	—	—	—	16,487	55,255
(Charge) credit to the consolidated income statement (note 12)	—	(494)	(1,189,801)	199,095	2,158,573	—	1,167,373
Balance at December 31, 2015	<u>(3,824)</u>	<u>(156,240)</u>	<u>(6,302,934)</u>	<u>969,664</u>	<u>4,152,248</u>	<u>614,664</u>	<u>(726,422)</u>

The temporary differences on income and expenses recognized mainly arose from unpaid provision of salaries and wages, provisions of compensation fees for mining rights and land subsidence, restoration, rehabilitation and environmental costs and also included payments on certain expenses such as exploration costs and certain income in Australia.

The following is the analysis of the deferred tax balances for financial reporting purposes:

	At December 31,	
	2015 RMB'000	2014 RMB'000
Deferred tax assets	7,097,143	5,679,608
Deferred tax liabilities	(7,823,565)	(7,554,413)
	<u>(726,422)</u>	<u>(1,874,805)</u>

At the balance sheet date, the Group has unused tax losses of RMB23,945 million (2014: RMB17,912 million) contributed by the subsidiaries available for offset against future profits. RMB4,152 million deferred tax asset has been recognized (2014: RMB2,181 million) for such tax losses. No deferred tax asset has been recognized in respect of the RMB10,104 million (2014: RMB10,642 million) due to the unpredictability of future profit streams. Included in unrecognized tax losses are losses of RMB667 million that will expire in 2017, losses of RMB7,769 million that will expire in 2018 and losses of RMB1,394 million that will expire in 2019 and losses of RMB274 million that will be expired in 2020 (2014: losses of RMB517 million that will expire in 2015, loss of RMB282 million that will expire in 2016, losses of RMB680 million that will expire in 2017 losses of RMB7,769 million that will expire in 2018 and losses of RMB1,394 million that will expire in 2019). Other losses may be carried forward indefinitely.

By reference to financial budgets, management believes that there will be sufficient future profits for the realization of deferred tax assets which have been recognized in respect of tax losses.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

41. SHAREHOLDERS' EQUITY

Share capital

The Company's share capital structure at the balance sheet date is as follows:

	<u>Domestic invested shares A shares</u>	<u>Foreign invested shares H shares (including H shares represented by ADS)</u>	<u>Total</u>
<b>Number of shares</b>			
At January 1, 2014, January 1, 2015 and December 31, 2015	2,960,000,000	1,958,400,000	4,918,400,000
	<u>Domestic invested shares A shares RMB'000</u>	<u>Foreign invested shares H shares (including H shares represented by ADS) RMB'000</u>	<u>Total RMB'000</u>
<b>Registered, issued and fully paid</b>			
At January 1, 2014, January 1, 2015 and December 31, 2015	2,960,000	1,958,400	4,918,400

Each share has a par value of RMB1.

The Company has completed the implementation of the share reform plan on April 3, 2006 and 2,600,000,000 the non-tradable legal person shares held by the Parent Company become tradable shares. The Parent Company guaranteed that it would not trade these shares in the market within 48 months from that day. On September, 2013, all the commitment made by the Parent Company as part of the share reform plan was fulfilled. The application for the right of shares trading in the market was approved by local legislation, and hence those shares held by the Parent Company are tradable in the market.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 41. SHAREHOLDERS' EQUITY (continued)

#### Capital reserve

During the year ended December 31, 2015, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate consideration paid HK\$'000	Equivalent aggregate consideration paid RMB'000
December 2015	6,384,000	3.70	3.47	23,180	19,439

At the 2015 Annual General Meeting, the First H shareholders' Class Meeting in 2015 convened by the Company on 22 May 2015, a resolution in relation to the proposal of granting a general mandate to the board of directors of the Company to repurchase H shares was approved. As at December 31, 2015, the number of H shares repurchased was 6,384,000 in aggregate. The change of business registration in the PRC for cancellation of the repurchased H shares has not completed yet. As at December 31, 2015, the Company's total registered capital was RMB4,918,400,000 (December 31, 2014: RMB4,918,400,000).

#### Reserves

##### **Future Development Fund**

Pursuant to regulation in the PRC, the Company, Shanxi Tianchi and Heze are required to transfer an annual amount to a future development fund at RMB6 per tonne of raw coal mined (Xintai and Ordos: RMB6.5 per tonne of raw coal mined). The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

From 2008 onwards, Shanxi Tianchi is required to transfer an additional amount at RMB5 per tonne of raw coal mined as coal mine transformation fund. Pursuant to the Shanxi Provincial Government's decision, coal mine transformation fund would be suspended since August 1, 2013.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 41. SHAREHOLDERS' EQUITY (continued)

Pursuant to the regulations of the Shandong Province Finance Bureau, State-owned Assets Supervision and Administration Commission of Shandong Province and the Shandong Province Coal Mining Industrial Bureau, the Company is required to transfer an additional amount at RMB5 per tonne of raw coal mined from July 1, 2004 to the reform specific development fund for the future improvement of the mining facilities and is not distributable to shareholders. No further transfer to the reform specific development fund is required from January 1, 2008.

In accordance with the regulations of the State Administration of Work Safety, the Company has a commitment to incur RMB8 (Shanxi Tianchi: decreased from RMB50 to RMB30 from October 1, 2013 onwards, Xintai and Ordos: increased from RMB7 to RMB15 from February 1, 2012 onwards) for each tonne of raw coal mined from May 1, 2004 which will be used for enhancement of safety production environment and improvement of facilities ("Work Safety Cost"). From February 1, 2012 onwards, the work safety cost increased to RMB15 per tonne. In prior years, the work safety expenditures are recognized only when acquiring the fixed assets or incurring other work safety expenditures. The Company, Heze, Shanxi Tianchi, Xintai and Ordos make appropriation to the future development fund in respect of unutilized Work Safety Cost from 2008 onwards.

In accordance with the regulations of the State Administration of Work Safety, the Company's subsidiaries, Hua Ju Energy, Shanxi Tianhao and Yulin, have a commitment to incur Work Safety Cost at the rate of: 4% of the actual sales income for the year below RMB10 million; 2% of the actual sales income for the year between RMB10 million and RMB100 million (included); 0.5% of the actual sales income for the year between RMB100 million and RMB1 billion (included); 0.2% of the actual sales income for the year above RMB1 billion. The unutilized Work Safety Cost at December 31, 2015 was RMB1,638,445,000 (2014: RMB1,611,120,000).

#### **Statutory Common Reserve Fund**

The Company and its subsidiaries in the PRC have to set aside 10% of its profit for the statutory common reserve fund (except where the fund has reached 50% of its registered capital). The statutory common reserve fund can be used for the following purposes:

- to make good losses of the previous years; or
- to convert into capital, provided such conversion is approved by a resolution at a shareholders' general meeting and the balance of the statutory common reserve fund does not fall below 25% of the registered capital.

#### **Retained earnings**

In accordance with the Company's Articles of Association, the profit for the purpose of appropriation will be deemed to be the lesser of the amounts determined in accordance with (i) PRC accounting standards and regulations and (ii) IFRS or the accounting standards of the places in which its shares are listed.

The Company can also create a discretionary reserve in accordance with its Articles of Association or pursuant to resolutions which may be adopted at a meeting of shareholders.

The Company's distributable reserve as at December 31, 2015 is the retained earnings computed under IFRS which amounted to approximately RMB31,884,892,000 (At December 31, 2014: RMB30,419,601,000).

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

42. PERPETUAL CAPITAL SECURITIES

	Perpetual capital securities issued by the Company RMB'000 (note a)	Perpetual capital securities issued by a subsidiary RMB'000 (note b)	Total RMB'000
At January 1, 2014	—	—	—
Issuance of perpetual capital security	2,485,000	1,835,747	4,320,747
Profit attributable to holders of perpetual capital security	36,456	82,079	118,535
Distribution paid to holders of perpetual capital security	—	(65,923)	(65,923)
At December 31, 2014 and January 1, 2015	2,521,456	1,851,903	4,373,359
Issuance of perpetual capital security	3,964,000	—	3,964,000
Profit attributable to holders of perpetual capital security	346,227	140,593	486,820
Distribution paid to holders of perpetual capital security	(170,000)	(137,659)	(307,659)
At December 31, 2015	<u>6,661,683</u>	<u>1,854,837</u>	<u>8,516,520</u>

- a) The Company issued 6.8% perpetual capital securities with par value of RMB 1,500,000,000 and RMB 1,000,000,000 on 19 September and 17 November 2014 respectively. Coupon payments of 6.8% per annum on the perpetual capital securities are paid in arrears and can be deferred at the discretion of the Group. The perpetual capital securities have no fixed maturity and are redeemable at the discretion of the Group at their principal amounts together with any accrued, unpaid or deferred coupon interest payments. In addition, while any coupon payments are unpaid or deferred, the Company undertakes not to declare, pay any dividends nor to make any distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower or equal rank. Since the perpetual capital security does not include any payment of cash or other contractual obligation of financial instrument, it is categorized as equity under IFRS.

The Company issued 6.50% and 6.19% perpetual capital securities with par value of RMB2,000,000,000 and RMB2,000,000,000 on April 10, 2015 and April 30, 2015 respectively. Coupon payments of 6.50% and 6.19% per annum, which will be reset every 3 years, on the perpetual capital securities are paid in arrears and can be deferred at the discretion of the Group. Those perpetual capital securities have no fixed maturity and are redeemable at the discretion of the Group at their principal amounts together with any accrued, unpaid or deferred coupon interest payments. In addition, while any coupon payments are unpaid or deferred, the Company undertakes not to declare, pay any dividends nor to make any distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower or equal rank. Since the perpetual capital security does not include any payment of cash or other contractual obligation of financial instrument, it is categorized as equity under IFRS.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 42. PERPETUAL CAPITAL SECURITIES (continued)

- b) On May 22, 2014, Yancoal International Trading Co., Limited issued 7.2% Perpetual Capital Securities with par value of USD 300,000,000 (“Perpetual capital securities”) which is guaranteed by the Company. Coupon payments of 7.2% per annum on the perpetual capital securities are paid semi-annually in arrears and can be deferred at the discretion of the Group. The perpetual capital securities have no fixed maturity and are redeemable at the discretion of the Group on or after May 22, 2016 at their principal amounts together with any accrued, unpaid or deferred coupon interest payments. In addition, while any coupon payments are unpaid or deferred, the Group undertakes not to declare, pay any dividends nor to make any distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower or equal rank. The securities were listed and traded on the Hong Kong Stock Exchange and sold to professional investors only on May 23, 2014. Since the perpetual capital security does not include any payment of cash or other contractual obligation of financial instrument, it is categorized as equity under IFRS.

### 43. SUBORDINATED CAPITAL NOTES

On 31 December 2014, Yancoal SCN Limited, a wholly owned subsidiary of Yancoal Australia issued 18,005,102 Subordinated Capital Notes (“SCN”) at US\$100 each. Each SCN is convertible into 1,000 Yancoal Australia ordinary shares and is traded on ASX. The distribution rate is set at 7% per annum, with interest will be paid half a year at Yancoal Australia’s discretion.

SCN do not have any fixed maturity date and do not have to be redeemed except in a winding up of the Issuer or Yancoal Australia. Conversion occurs at a fixed price so the value of the Yancoal Australia ordinary shares issued on conversion may be more or less than the face value of the SCN converted. Note holders will be permitted to convert the SCN into Yancoal Australia ordinary shares after 40 days until the 30 year conversion period ends. The SCN will be initially convertible into Yancoal Australia ordinary shares at a conversion price of US\$0.10 per share. Almost all the notes were purchased by the Company and only RMB3,102,000 of the note is issued to other third parties. The SCN do not contain any contractual obligation to pay cash or other financial assets in accordance with IFRS, they are classified as equity.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 44. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 36 and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings, and amounted to RMB111,511,389,000 (2014: RMB102,685,390,000) as at December 31, 2015.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company assess the annual budget prepared by the accounting and treasury department and consider and evaluate the cost of capital and the risks associated with each class of capital. The Group will balance its capital structure through the payment of dividends, issue of new shares and new debts or the repayment of existing debts.

### 45. FINANCIAL INSTRUMENTS

#### 45a. Categories of financial instruments

	At December 31,	
	2015	2014
	RMB'000	RMB'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	33,448,087	32,628,664
Available-for-sale financial assets	944,410	388,764
Derivative financial instruments	—	359
Royalty receivable (financial assets at fair value through profit or loss)	968,527	999,064
<b>Financial liabilities</b>		
Amortized cost	83,672,150	74,677,564
Derivative financial instruments	5,442	81,602

#### 45b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale equity instruments, bills and accounts receivable, royalty receivable, other current assets such as other receivables, bank balances and cash, term deposits, restricted cash, long term receivables, derivative financial instruments, bills and accounts payable, other payables, bank and other borrowings, amounts due to Parent Company and its subsidiaries, finance lease liabilities and guaranteed notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no significant change to the Group's exposure to market risk or the manner in which it manages and measures the risk.



45. FINANCIAL INSTRUMENTS (continued)

45b. Financial risk management objectives and policies (continued)

**Credit risk**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group.

On December 31, 2015 and 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the failure to perform their obligations in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The Group maintains its cash and cash equivalents with reputable banks and its associate, Yankuang Group Finance Company Limited (see note 27). Therefore, the directors consider that the credit risk for such is minimal.

The Group generally grants the customers with long-relationship credit terms not exceeding 180 days, depending on the situations of the individual customers. For small to medium sized new customers, the Group generally requires them to pay for the products before delivery.

Most of the Group's domestic sales are sales to electric power plants, metallurgical companies, construction material producers and railway companies. The Group generally has established long-term and stable relationships with these companies. The Group also sells its coal to provincial and city fuel trading companies.

As the Group's PRC operation does not currently have direct export rights, all of its export sales must be made through National Coal Corporation, Shanxi Coal Corporation or Minmetals Trading. The qualities, prices and final customer destinations of the Group's export sales are determined by the Group, National Coal Corporation, Shanxi Coal Corporation or Minmetals Trading.

For the years ended December 31, 2015, 2014 and 2013, net sales to the Group's five largest customers accounted for approximately 13.1%, 14.2% and, 16.5% respectively, of the Group's total revenue. Net sales to the Group's largest customer accounted for 3.3%, 3.7%, and 5.8% of the Group's net revenue for the years ended December 31, 2015, 2014 and 2013 respectively. The Group's largest customer were Noble Group for the year ended December 31, 2015 and Huadian Power International Corporation Limited ("Huadian") for the years ended December 31, 2014 and 2013.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

45. FINANCIAL INSTRUMENTS (continued)

45b. Financial risk management objectives and policies (continued)

**Credit risk (continued)**

Details of the accounts receivable from the five customers with the largest receivable balances at December 31, 2015 and 2014 are as follows:

	Percentage of accounts receivable	
	At December 31, 2015	2014
Five largest receivable balances	29.43%	35.85%

The management considers the strong financial background and good creditability of these customers, and there is no significant uncovered credit risk.

The table below shows the credit limit and balance of 5 major counterparties at the balance sheet date:

Counterparty	Location	31.12.2015		31.12.2014	
		Credit limit RMB'000	Carrying amount RMB'000	Credit limit RMB'000	Carrying amount RMB'000
Company A	China	Not applicable	273,787	Not applicable	—
Company B	China	Not applicable	244,347	Not applicable	—
Company C	China	Not applicable	89,952	Not applicable	—
Company D	China	Not applicable	59,018	Not applicable	—
Company E	China	Not applicable	57,237	Not applicable	—
Company F	China	Not applicable	—	Not applicable	180,052
Company G	China	Not applicable	—	Not applicable	167,666
Company H	China	Not applicable	—	Not applicable	158,055
Company I	Australia	Not applicable	—	Not applicable	156,902
Company J	China	Not applicable	—	Not applicable	60,000
			<u>724,341</u>		<u>722,675</u>

The Group's geographical concentration of credit risk is mainly in East Asia (excluding the PRC) and Australia. As at December 31, 2015 and 2014, over 75% and 45% of the Group's total trade receivables were from Australia and from East Asia (excluding the PRC) respectively.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

45. FINANCIAL INSTRUMENTS (continued)

45b. Financial risk management objectives and policies (continued)

**Market risk**

(i) *Currency risk*

The Group's sales are denominated mainly in the functional currency of the relevant group entity making the sale, whilst costs are mainly denominated in the group entity's functional currency. Accordingly, there is no significant exposure to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities in currencies other than the functional currencies of the relevant group entities at the balance sheet date are as follows:

	Liabilities		Assets	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
United States Dollar ("USD")	43,411,219	35,377,540	5,970,558	3,920,955
Euro ("EUR")	—	3,515	8,782	14,852
Hong Kong Dollar ("HKD")	—	—	22,408	23
Notional amounts of sell USD foreign exchange contracts used for hedging	—	134,581	—	432,293

The sales of the Group's subsidiaries in Australia are mainly export sales and some of their fixed assets are imported from overseas. Their foreign exchange hedging policy is disclosed in note 37. The Group's operations in the PRC do not adopt any foreign exchange hedging policy.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

45. FINANCIAL INSTRUMENTS (continued)

45b. Financial risk management objectives and policies (continued)

**Market risk (continued)**

(i) *Currency risk (continued)*

**Sensitivity analysis**

The Group is mainly exposed to the fluctuation against the currency of United States Dollar.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against relevant foreign currencies. 5% represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates and also assumes all other risk variables remained constant. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

	USD Impact (note i)	
	2015	2014
	RMB'000	RMB'000
(Decrease) Increase to profit or loss		
- if RMB weakens against respective foreign currency	(247,656)	(92,093)
- if RMB strengthens against respective foreign currency	247,656	92,093

	USD Impact (note ii)		EUR Impact (note ii)	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
(Decrease) Increase to profit or loss				
- if AUD weakens against respective foreign currency	30,037	38,650	—	(124)
- if AUD strengthens against respective foreign currency	(30,037)	(38,650)	—	124
Increase (Decrease) to shareholders' equity				
- if AUD weakens against respective foreign currency	601,683	(599,877)	—	(124)
- if AUD strengthens against respective foreign currency	(601,683)	599,877	—	124

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

45. FINANCIAL INSTRUMENTS (continued)

45b. Financial risk management objectives and policies (continued)

**Market risk (continued)**

(i) *Currency risk (continued)*

Notes:

- (i) This is mainly attributable to the exposure of the Group's outstanding bank deposit and loans denominated in USD.
- (ii) This is mainly attributable to the exposure of the Group's outstanding bank borrowings in foreign currency and derivative financial instruments denominated in a currency other than the functional currency of the borrower.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, term deposits, restricted cash (note 17) and variable rate borrowings (note 36).

The interest rate hedging policy of the Group is disclosed in note 37.

The Group's exposures to interest rate risk on financial assets and financial liabilities are detailed in the liquidity risk section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the PBOC arising from the Group's RMB borrowings and the LIBOR arising from the Group's USD borrowings.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

45. FINANCIAL INSTRUMENTS (continued)

45b. Financial risk management objectives and policies (continued)

**Market risk (continued)**

(ii) *Interest rate risk (continued)*

***Sensitivity Analysis***

The following table details the Group's sensitivity to a change of 100 basis points in the interest rate, assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all the variables were held constant. It includes the interest rate fluctuation of the abovementioned PBOC rate and LIBOR.

	<u>2015</u> RMB'000	<u>2014</u> RMB'000
(Decrease) Increase to profit and loss		
-If increases by 100 basis points	(135,032)	(107,989)
-If decreases by 100 basis points	135,032	107,989
Increase (Decrease) to shareholders' equity		
-If increases by 100 basis points	(135,032)	(107,989)
-If decreases by 100 basis points	135,032	107,989

(iii) *Other price risk*

In addition to the above risks relating to financial instruments, the Group is exposed to equity price risk through investment in listed equity securities and also to price risk in non financial instruments such as steel and metals (the Group's major raw materials). The Group currently does not have any arrangement to hedge the price risk exposure of its investment in equity securities and its purchase of raw materials. The Group's exposure to equity price risk through investment in listed equity securities and also the result of the sensitivity analysis is not significant.

**YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES**

45. FINANCIAL INSTRUMENTS (continued)

45b. Financial risk management objectives and policies (continued)

**Liquidity risk**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

Included in bank balances and cash of the Group is RMB18,473,748,000 (2014: RMB16,701,213,000) of bank balances denominated in Renminbi placed with banks in the PRC. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. As of December 31, 2015 and 2014, other than the restriction from exchange control regulations, there is no significant restriction on the Group.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

*Liquidity and interest risk tables*

	Weighted average effective interest rate %	Less than 3 months RMB'000	3-6 months RMB'000	6 months to 1 year RMB'000	1-5 years RMB'000	5+ years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount at 12.31 RMB'000
<b>2015</b>								
<b>Non-derivative financial liabilities</b>								
Bills and accounts payables	NA	4,207,366	—	—	—	—	4,207,366	4,207,366
Other payables	NA	8,999,978	—	—	—	—	8,999,978	8,999,978
Amounts due to Parent Company and its subsidiary companies								
USD Guaranteed note	4.46% - 5.73%	190,150	—	—	—	—	190,150	190,150
RMB Guaranteed note	4.20% - 6.15%	72,995	72,995	145,990	3,619,953	3,057,800	6,969,733	5,742,766
Loan pledged by machineries	9.25%	15,403,265	—	240,000	4,773,654	7,996,798	28,413,717	19,930,408
Finance lease liabilities	5.43% - 5.60%	30,618	30,285	60,902	2,005,855	—	2,127,660	1,800,000
Bank borrowings	0.662% - 6.400%	1,978	1,978	3,956	154,320	—	162,232	145,705
Long-term payable	6.15% - 6.50%	343,743	343,743	687,486	16,040,209	29,024,594	46,439,775	41,860,926
		1,145	—	440,011	416,768	—	857,924	794,851
		<u>29,251,238</u>	<u>449,001</u>	<u>1,578,345</u>	<u>27,010,759</u>	<u>40,079,192</u>	<u>98,368,535</u>	<u>83,672,150</u>
<b>Financial guarantees issued</b>								
Maximum amount guaranteed (note)	NA	—	—	—	—	2,166,126	2,166,126	—
<b>Derivative financial instruments – gross settlement</b>								
Forward foreign exchange contracts								
- Outflow	NA	11,615	—	—	—	—	11,615	11,615
Future contracts								
- Outflow	NA	—	2,777	—	—	—	2,777	2,777

Note: the amount presented is the maximum contractual presented under guarantees issued.

**YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES**

45. FINANCIAL INSTRUMENTS (continued)

45b. Financial risk management objectives and policies (continued)

**Liquidity risk (continued)**

*Liquidity and interest risk tables (continued)*

	Weighted average effective interest rate %	Less than 3 months RMB'000	3-6 months RMB'000	6 months to 1 year RMB'000	1-5 years RMB'000	5+ years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount at 12.31 RMB'000
<b>2014</b>								
<b>Non-derivative financial liabilities</b>								
Bills and accounts payables	N/A	4,037,204	—	—	—	—	4,037,204	4,037,204
Other payables	N/A	7,818,335	—	—	—	—	7,818,335	7,818,335
Amounts due to Parent Company and its subsidiary companies								
USD Guaranteed note	4.46%-5.73%	78,930	78,930	157,859	3,698,399	3,844,314	7,858,432	6,119,817
RMB Guaranteed note	4.20%-6.15%	5,363,341	—	240,000	4,933,281	8,387,728	18,924,350	14,920,374
Loan pledged by machineries	5.68%-10.00%	31,049	30,384	61,766	2,160,630	—	2,283,829	1,800,000
Finance lease liabilities	2.99%-5.60%	2,722	2,722	5,443	204,760	26,883	242,530	206,636
Bank borrowings	1.45%-15.60%	1,304,920	683,760	4,122,001	20,343,573	17,748,332	44,202,586	38,391,261
Long-term payable	6.15%-6.50%	1,215	—	464,434	855,662	—	1,321,311	1,193,528
		<u>18,828,124</u>	<u>795,796</u>	<u>5,051,503</u>	<u>32,196,305</u>	<u>30,007,257</u>	<u>86,878,985</u>	<u>74,677,564</u>
<b>Financial guarantees issued</b>								
Maximum amount guaranteed (note)	N/A	—	—	—	—	2,051,340	2,051,340	—
<b>Derivative financial instruments – gross settlement</b>								
Forward foreign exchange contracts								
- Outflow	N/A	666,618	—	—	—	—	666,618	666,618
Future contrasts								
- Outflow	N/A	664	—	—	—	—	664	664
Collar option								
- Outflow	N/A	549,994	477,353	—	—	—	1,027,347	1,027,347

Note: the amount presented is the maximum contractual presented under guarantees issued.



YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

45. FINANCIAL INSTRUMENTS (continued)

45c. Fair values

The fair value of available-for-sales investment is determined with reference to quoted market price. The fair values of the forward foreign exchange contracts are estimated based on the discounted cash flows between the contract forward rate and spot forward rate. The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

Fair values of financial assets and financial liabilities are determined as follows:

The following table presents the carrying value of financial instruments measured at fair value across the three levels of the fair value hierarchy. The levels of fair value are defined as follows:

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>At December 31</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>Total</u>
				<u>RMB'000</u>
<b>2015</b>				
<b>Assets</b>				
Available-for-sale investments				
- Investments in securities listed on the SSE	610	—	—	610
- Investments in securities listed on the NEEQ	797,720	—	—	797,720
Derivative financial instruments				
- Royalty receivable	—	—	968,527	968,527
	<u>798,330</u>	<u>—</u>	<u>968,527</u>	<u>1,766,857</u>
<b>Liabilities</b>				
Derivative financial instruments				
- Future contracts	849	—	—	849
- Forward foreign exchange contracts	—	4,593	—	4,593
	<u>849</u>	<u>4,593</u>	<u>—</u>	<u>5,442</u>

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

45. FINANCIAL INSTRUMENTS (continued)

45c. Fair values (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>At December 31</u>
	RMB'000	RMB'000	RMB'000	Total
				RMB'000
<b>2014</b>				
<b>Assets</b>				
<b>Available-for-sale investments</b>				
- Investments in securities listed on the SSE	249,404	—	—	249,404
<b>Derivative financial instruments</b>				
- Forward foreign exchange contracts	—	359	—	359
- Royalty receivable	—	—	999,064	999,064
	<u>249,404</u>	<u>359</u>	<u>999,064</u>	<u>1,248,827</u>
<b>Liabilities</b>				
<b>Derivative financial instruments</b>				
- Future contracts	664	—	—	664
- Forward foreign exchange contracts	—	2,621	—	2,621
- Collar option	—	78,317	—	78,317
	<u>664</u>	<u>80,938</u>	<u>—</u>	<u>81,602</u>

In 2015 and 2014, there are no change in categories between level 1 and level 2 and no movement from or into level 3. For more information about royalty receivable, please refer to note 19.

The fair value of the royalty receivable is determined using the discounted future cash flows that are dependent on the following unobservable inputs: forecast sales volumes, coal prices and fluctuations in foreign exchange rates. The forecast sales volumes are based on the internally maintained budgets, five year business plan and life of mine models. The forecast coal prices and long term exchange rates are based on external data consistent with the data used for impairment assessments (note 23). The risk-adjusted post-tax discount rate used to determine the future cash flows is 10.5%. The estimated fair value would increase if the sales volumes and coal prices were higher and if the Australian dollar weakens against the US dollar. The Estimated fair value would also increase if the risk-adjusted discount rate was lower.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

46. ACQUISITION OF ASHTON COAL MINES LIMITED

The Australia subsidiaries of the Group originally held 60% equity interests in Ashton joint operations. During 2011, the Group acquired additional 30% equity interests in Ashton joint operations from another venturer at a consideration of USD250 million. This included the acquisition of 30% equity interests in the joint ventures, Ashton Coal Mines Limited. Under the shareholders agreement, the 90% equity interest held in Ashton joint operations remained classified as joint operation, whereas the 90% interest in Ashton joint venture was accounted for using equity method. On September, 30, 2014, the remaining 10% equity interests in the joint venture of Ashton Coal Mines Limited were acquired by the Group at a consideration of AUD21.2 million (approximate RMB106,367,000). Upon completion of the acquisition, Ashton Coal Mines Limited becomes a wholly owned subsidiary of the Group.

The acquisition has been accounted for using the acquisition method.

The net assets acquired on the acquisition date are as follows:

	Carrying amounts RMB'000	Fair Value Adjustments RMB'000	Fair Values RMB'000
Bank balances and cash	47,688		47,688
Accounts receivable and other receivables	112,652		112,652
Inventories	44,125		44,125
Prepayments	23,861		23,861
Property plant and equipment, net *	1,382,951		1,382,951
Intangible assets*	2,363,255		2,363,255
Long term receivables	20,466		20,466
Goodwill	193,178	(193,178)	—
Accounts payable and other payables	(257,091)		(257,091)
Provision for land subsidence, restoration, rehabilitation and environmental costs *	(35,842)		(35,842)
Long term payable	(38,132)		(38,132)
Tax recoverable	6,124		6,124
Deferred taxation	(617,355)	9,784	(607,571)
Other provision	—	(148,013)	(148,013)
Net asset acquired			2,914,473
Bargain purchase			(147,993)
			<u>2,766,480</u>
<b>Considerations:</b>			
Cash paid on acquisition			106,367
Carrying amount previously recognised as interest in joint venture and share of assets and liabilities held under a joint operation			2,660,113
			<u>2,766,480</u>
<b>Net cash outflow arising on acquisition:</b>			
Cash paid on acquisition			106,367
Bank balances and cash acquired			(47,688)
			<u>58,679</u>

\* Included in the net assets acquired on the acquisition of Ashton Coal Mines Limited as of the acquisition date, certain assets and liabilities held under a joint operation were recognised by the Group in accordance with its share of those assets and liabilities before the acquisition.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 46. ACQUISITION OF ASHTON COAL MINES LIMITED (continued)

During the period from the acquisition date to December 31, 2014, Ashton Coal Mines Limited has contributed a total revenue of RMB216.8 million and a net profit of RMB2.1 million.

If the acquisition had occurred on January 1, 2014, the consolidated revenue and net profit of the Group for the year ended December 31, 2014 would have been increased by RMB747.5 million and decreased by RMB128.5 million respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition has been completed January 1, 2014 and could not serve as a basis for the forecast of future operation result.

### 47. ACQUISITION OF DONGHUA

On July 27, 2015, the Company entered into the Equity Shares Transfer Agreement with the Parent Company to purchase Donghua 100% equity shares. On July 31, 2015, the transaction was completed and the consideration of RMB676,000,000 was fully paid to the Parent Company to acquire including, but not limited to, the building ownership, all machinery equipment, intangible assets and other fixed assets and their equity investments in Yankuang Group Tangcun Industrial Company Limited, Yankuang Group Mainland Machinery Company Limited, Yankuang Group Zoucheng Jinming Electrical Company Limited, Yanzhou Dongfang Electrical Company Limited and Yankuang Group Jintong Rubber Company Limited.

The principal business of Donghua is manufacturing of comprehensive coal mining and excavating equipment. The net assets and goodwill acquired were included in the equipment manufacturing segment.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

47. ACQUISITION OF DONGHUA (continued)

The net assets acquired on the acquisition date are as follows:

	Carrying amounts RMB'000	Fair value Adjustment RMB'000	Fair Values RMB'000
Bank balances and cash	89,646	—	89,646
Account receivables and other receivables	1,637,589	—	1,637,589
Prepayments	46,355	—	46,355
Inventories	392,576	4,150	396,726
Property, plant and equipment, net	620,934	21,240	642,174
Construction in process	1,640	—	1,640
Intangible assets	522	13,602	14,124
Land access rights	152,537	10,937	163,474
Deferred tax assets	54,640	—	54,640
Accounts and other payables	(2,150,711)	—	(2,150,711)
Income tax payable	(9,471)	—	(9,471)
Bank borrowings	(443,823)	—	(443,823)
Long-term payables	(163,085)	—	(163,085)
Deferred tax liabilities	—	(12,482)	(12,482)
Net assets acquired			266,796
Goodwill arising from acquisition			409,204
			<u>676,000</u>
<b>Considerations:</b>			
Cash paid on acquisition			<u>(676,000)</u>
<b>Net cash outflow arising on acquisition:</b>			
Cash paid on acquisition			(676,000)
Bank balances and cash acquired			89,646
			<u>(586,354)</u>

The goodwill arising from the acquisition is attributable to develop of more diversified operating activity and the profitability of the business, and operational synergies and strategic benefits expected to arise subsequent to the acquisition.

During the period from the acquisition date to December 31, 2015, Donghua has contributed a total revenue of RMB309.9 million and net profit of RMB31.8 million.

If the acquisition had occurred on January 1, 2015, the consolidated revenue and net profit of the Group for the year ended December 31, 2015 would have been increased by RMB422.7 million and RMB43.5 million respectively.

The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition has been completed on January 1, 2015 and could not serve as a basis for the forecast of future operation result.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 48. ACQUISITION OF ADDITIONAL INTERESTS IN JOINT OPERATION

The Australia subsidiaries of the Group originally held 80% equity interests in Moolarben joint operation. On March 30, 2015, the Group acquired additional 1% equity interests in Moolarben joint operation from another venturer at a consideration of AUD19.9 million. Upon completion of the acquisition, the Group held 81% equity interest in Moolarben joint operation.

Under the shareholders agreement, the 81% equity interest held in Moolarben remained classified as a joint operation.

The net assets acquired on the acquisition date are as follows:

	<b>Fair Values</b> RMB'000
Bank balances and cash	458
Account receivables	2,289
Inventories	1,374
Other current asset	1,831
Property, plant and equipment, net	27,929
Other non-current asset	109,885
Trade and other payables	(916)
Other non-current liabilities	(2,747)
Deferred tax	<u>(15,567)</u>
Net assets acquired	124,536
Bargain purchase	<u>(30,930)</u>
<b>Net cash outflow arising on acquisition:</b>	<b>93,606</b>
Consideration:	
Cash paid on acquisition	(93,606)
Bank balances and cash acquired	458
	<u><u>(93,148)</u></u>

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

49. NON-CONTROLLING INTEREST

Summarised financial information of material non-controlling interests of subsidiaries is set out below:

For the details of transactions with non-controlling interests, please refer to note 50.

	Yancoal Australia At December 31		Hao Sheng At December 31	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Non-controlling interests percentage	22%	22%	22.25%	25.18%
<b>Summarised financial information</b>				
Current assets	11,643,631	3,362,311	412,510	276,938
Non-current assets	25,544,730	34,125,721	14,776,762	13,523,826
Current liabilities	(3,001,920)	(1,698,897)	(2,244,325)	(976,961)
Non-current liabilities	(26,205,121)	(23,309,923)	(3,022,421)	(3,022,421)
Net assets	7,981,320	12,479,212	9,922,526	9,801,382
Carrying amount of non-controlling interests	(877,567)	(59,220)	(2,463,747)	(2,467,988)
Revenue	6,280,343	7,300,759	—	—
Loss for the year	(1,418,695)	(1,846,546)	(16,276)	(20,996)
Other comprehensive loss	(2,839,429)	(1,425,380)	—	—
Total comprehensive loss	(4,258,124)	(3,271,926)	(16,276)	(20,996)
Loss allocated to non-controlling interests	(936,787)	(724,263)	(4,241)	(5,287)
Cash flows used in operating activities	(508,217)	(1,294,520)	(52,454)	(75,008)
Cash flows used in investing activities	(1,483,994)	(1,102,854)	(755,535)	(618,120)
Cash flows from financing activities	1,727,938	1,780,449	888,424	700,000
Net (decrease) increase in cash and cash equivalents	(264,273)	(616,925)	80,435	6,872
Dividends paid to non-controlling interests	—	—	—	—

The amount of above financial information is before elimination of intra-group transactions.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

50. RELATED PARTY BALANCES AND TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed. Related party transactions which also constitute continuing connected transactions under Main Board Listing Rules Chapter 14A, are disclosed below:

**Balances and transactions with related party**

	At December 31,	
	2015	2014
	RMB'000	RMB'000
<i>Nature of balances (other than those already disclosed)</i>		
Bills and accounts receivable		
- Parent Company and its subsidiaries	598,325	545,329
- Joint ventures	309,219	160,660
Prepayments and other receivables		
- Parent Company and its subsidiaries	127,568	224,151
- Joint ventures	3,092	—
- Associates	89,328	116,883
Bills and accounts payable		
- Parent Company and its subsidiaries	190,150	190,398
- Associates	1	10
Other payables and accrued expenses		
- Parent Company and its subsidiaries	1,344,991	1,037,193
- Associates	5,125	17

The amounts due from/to the Parent Company, joint ventures and its subsidiary companies are non-interest bearing, unsecured and repayable on demand.

During the years, the Group had the following significant transactions with the Parent Company and/or its subsidiary companies:

	Year ended December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
<i>Income</i>			
Sales of coal	1,092,512	2,287,541	2,839,839
Sales of auxiliary materials	598,236	510,432	328,732
Sales of heat and electricity	118,486	114,163	111,675
Sales of methanol	29,668	127,921	126,398
Provision of mines operating services	—	4,337	—
<i>Expenditure</i>			
Utilities and facilities	10,164	29,777	19,406
Purchases of supply materials and equipment	157,202	1,286,869	1,196,372
Repair and maintenance services	74,378	238,110	266,849
Social welfare and support services	755,004	822,793	483,783
Road transportation services	10,184	19,567	14,119
Construction services	709,262	600,847	522,314
Coal train convoy services	24,378	—	—



## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 50. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

#### **Balances and transactions with related party (continued)**

Expenditures for social welfare and support services (excluding medical and child care expenses) are RMB180,952,000, RMB177,854,000 and RMB122,460,000 for the years ended December 31, 2015, 2014 and 2013. These expenses will be negotiated with and paid by the Parent Company each year.

As at December 31, 2015, the Company has deposited RMB1,024,277,000 (2014: RMB927,255,000) (2013: RMB103,464,000) to the Company's associate, Yankuang Group Finance Company Limited. The interest income received during the year amounted to RMB4,097,000 (2014: RMB3,217,000) (2013: RMB4,756,000) and there was no finance cost paid during the year (2014: RMB100,000) (2013: RMB1,645,000).

In addition to the above, the Company participates in a retirement benefit scheme of the Parent Company in respect of retirement benefits (note 52).

#### **Balances and transactions with other state-controlled entities in the PRC**

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a large group of companies under the Parent Company which is controlled by the PRC government. Apart from the transactions with the Parent Company and its subsidiaries disclosed above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

Material transactions with other state-controlled entities are as follows:

	Year ended December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
Trade sales	1,432,740	4,518,295	5,986,611
Trade purchases	2,440,592	1,357,757	5,078,834

Material balances with other state-controlled entities are as follows:

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Amounts due to other state-controlled entities	254,425	201,797
Amounts due from other state-controlled entities	226,494	440,387

Amounts due to and from state-controlled entities are trade nature of which terms are not different from other customers (notes 18 and 33).

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 50. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations and no other transaction, arrangement or contract of significance to which the Company was a party and in which a director of the Company or a connected entity of the director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

#### **Balances and transactions with joint ventures**

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Due from a joint venture (note 30)	1,565,194	1,705,757

The amount due from a joint venture is unsecured and interest is calculated at commercial rate, interest received by the Group in the current year amounting to RMB92,193,000 (2014: RMB 100,345,000).

For the year ended December 31, 2015, the trade balances between the Group and joint ventures are disclosed in notes 18 and 33.

#### **Compensation of key management personnel**

The remuneration of directors and other members of key management were as follows:

	Year ended December 31,		
	2015	2014	2013
	RMB'000	RMB'000	RMB'000
Directors' fee	520	520	520
Salaries, allowance and other benefits in kind	8,047	10,663	5,987
Retirement benefit scheme contributions	1,269	1,772	1,020
	<u>9,836</u>	<u>12,955</u>	<u>7,527</u>

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

51. COMMITMENTS

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
Acquisition of property, plant and equipment		
- the Group	5,016,042	2,725,021
- share of joint operations	27,299	5,515
- Others	53,041	—
Exploration and evaluation		
- share of joint operations	1,249	1,382
- Others	591	—
	<u>5,098,222</u>	<u>2,731,918</u>

Pursuant to the regulations issued by the Shandong Province Finance Bureau, the Group has to pay a deposit of RMB2,636 million (2014: RMB2,636 million) to the relevant government authority, which secured for the environmental protection work done by the Company. As at December 31, 2015, deposit of RMB1,052 million (2014: RMB1,052 million) were made and the Company is committed to further make security deposit of RMB1,584 million (2014: RMB1,584 million).

52. RETIREMENT BENEFITS

Qualifying employees of the Company are entitled to pension, medical and other welfare benefits. The Company participates in a scheme of the Parent Company and pays a monthly contribution to the Parent Company in respect of retirement benefits at an agreed contribution rate based on the monthly basic salaries and wages of the qualified employees. The Parent Company is responsible for the payment of all retirement benefits to the retired employees of the Company.

Pursuant to the Provision of Insurance Fund Administrative Services Agreement entered into by the Company and the Parent Company on March 21, 2014, the monthly contribution rate is at 20% (2014: 20%; 2013: 20%) of the total monthly basic salaries and wages of the Company's employees for the period from January 1, 2015 to December 31, 2017. Other welfare benefits will be provided by the Parent Company, which will be reimbursed by the Company.

The amount of contributions paid to the Parent Company were RMB667,746,000, RMB722,111,000, and RMB874,753,000 for the years ended December 31, 2015, 2014 and 2013 respectively.

The Company's subsidiaries are participants in a state-managed retirement scheme pursuant to which the subsidiaries pay a fixed percentage of its qualifying staff's wages as a contribution to the scheme. The subsidiaries' financial obligations under this scheme are limited to the payment of the employer's contribution. During the year, contributions paid and payable by the subsidiaries pursuant to this arrangement were insignificant to the Group. The Group's overseas subsidiaries pay fixed contribution as pensions under the laws and regulations of the relevant countries.

## YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

### 52. RETIREMENT BENEFITS (continued)

During the year and at the balance sheet date, there were no forfeited contributions which arose upon employees leaving the above schemes available to reduce the contributions payable in future years.

### 53. HOUSING SCHEME

The Parent Company is responsible for providing accommodation to its employees and the domestic employees of the Company. The Company and the Parent Company share the incidental expenses relating to the accommodation at a negotiated amount for each of the three years ended December 31, 2015, 2014 and 2013. Such expenses, amounting to RMB137,200,000, RMB137,200,000 and RMB80,042,000 for each of the three years ended December 31, 2015, 2014 and 2013 respectively, have been included as part of the social welfare and support services expenses summarized in note 52.

The Company currently makes a fixed monthly contribution for each of its qualifying employees to a housing fund which is equally matched by a contribution from the employees. The contributions are paid to the Parent Company which utilizes the funds, along with the proceeds from the sales of accommodation and, if the need arises, from loans arranged by the Parent Company, to construct new accommodation.

### 54. POST BALANCE SHEET EVENT

On January 14, 2016, the Company's subsidiary, Duanxin Investment Holding (Beijing) Limited ("Duanxin"), has passed a resolution that investing no more than RMB 650million in Xinhua Fushi Duanxin First Specific Property Management Plan. During January 2016, Duanxin (Client), Shenzhen Xinhua Fushi Property Management Limited ("Property Management") and Bank of Ningbo signed a Property Management Contract, state that Duanxin entrust Xinhua Fushi 650million property for investment on January 21, 2016.

On February 22, 2016, the Company have issued 2016 first tranche super-short-term notes with par value of RMB 4,000,000,000, while the remaining registered allowance is RMB 11,000,000,000. The super-short-term notes have 270 days maturity and interest rate of 3.40% per annum. Interest starts on February 24, 2016 and have to be repaid on November 20, 2016. The main underwriters are Bank of China Limited and Industrial and Commercial Bank of China Limited.

On March 8, 2016, Yancoal International, a wholly-owned subsidiary of the Company, entered into the Cornerstone Investment Agreement with China Zheshang Bank ("CZB" as issuer), CMB International Capital Limited (as Underwriter's Representative) and the Company (as guarantor), pursuant to which Yancoal International has agreed to acquire 400,000,000 CZB H Shares under international offering by paying a consideration of approximately HK\$1.6 billion. On April 18, 2016, the Company, Yancoal International acquired additional 88,000,000 CZB H Shares through block trade from an independent third party for a total consideration of approximately HK\$347.6 million. After the Acquisition, the Company is holding an aggregate of 488,000,000 CZB H Shares, representing approximately 2.79% of the total share capital of China Zheshang Bank.

On 29 March 2016, the Company entered into the equity transfer agreement with Parent Company to acquire its 65% equity interest in Yankuang Group Finance Company Limited at a consideration of RMB1,242.0 million.

On 29 March 2016, Heze Neng Hua, a subsidiary of the Company, entered into the Wanfu mining right transfer agreement with Parent Company to acquire the Wanfu mining right at a consideration of RMB1,250.4 million.

Having considered the effective date of the equity and mining right transfer agreement and the required time for completing relevant registration procedures, the acquisitions of 65% equity interest in Yankuang Group Finance Company Limited and Wanfu mining right are still not yet completed as at reporting date. The aforesaid registration procedures are expected to be completed in August 2016.

### 55. OPERATING LEASE COMMITMENTS

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Within one year	164,702	152,981
More than one year, but not more than five years	180,133	132,547
	<u>344,835</u>	<u>285,528</u>

Operating leases have average remaining lease terms of 1 to 5 years. Items that are subject to operating leases include mining equipment, office space and small items of office equipment.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

56. CONTINGENT LIABILITIES

(i) Guarantees

	At December 31,	
	2015	2014
	RMB'000	RMB'000
<b>(a) The Group</b>		
Guarantees secured over deposits	112,673	136,080
Performance guarantees provided to daily operations	764,966	979,025
Guarantees provided in respect of the cost of restoration of certain mining leases, given to government departments as required by statute	477,205	171,892
Guarantees provided in respect of land acquisition	236,380	182,282
<b>(b) Joint operations</b>		
Guarantees secured over deposits	1,333	1,918
<b>(c) Related parties</b>		
Guarantees secured over deposits	5,082	5,394
Performance guarantees provided to external parties	481,549	528,262
Guarantees provided in respect of the cost of restoration of certain mining leases, given to government departments as required by statute	86,938	46,487
	<u>2,166,126</u>	<u>2,051,340</u>

(ii) The Australian Taxation Office (“ATO”) commenced an audit of Yancoal Australia during the 2013 financial year. During the current year, final settlement was reached with the ATO which resulted in an increase to tax losses of \$176.8 million, an increase to tax expense of \$13.6 million, a cash payment of \$16.9 million (inclusive of interest charges), and a consequential amendment to the tax return for the tax years concerned. Yancoal Australia is currently in discussion with the ATO in relation to a subsequent tax year which may lead to further audit activity in the future.

(iii) Yancoal Australia has issued a letter of support dated February 27, 2015 to Middlemount Coal Pty Ltd (“Middlemount”), a joint venture confirming:

- It will not demand the repayment of any loan due from Middlemount, except to the extent that Middlemount agrees otherwise or as otherwise provided in the loan agreement; and
- It will provide financial support to Middlemount to enable it to meet its debts as and when they become due and payable, by way of new shareholder loans in proportion to its share of the net assets of Middlemount.

This letter of support will remain in force whilst the Yancoal Australia is a shareholder of Middlemount or until notice of not less than 12 months is provided or such shorter period as agreed by Middlemount.

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

57. INFORMATION OF THE COMPANY

Details of the Company's major subsidiaries at December 31, 2015 and 2014 are as follows:

Name of subsidiary	Country of incorporation/ registration and operation	Issued and fully paid capital/ registered capital	Proportion of registered capital/ issued share capital held by the Company				Proportion of voting power held		Principal activities
			2015		2014		2015	2014	
			Directly	Indirectly	Directly	Indirectly			
Shanxi Neng Hua (note 1)	PRC	RMB 600,000,000	100%	—	100%	—	100%	100%	Investment holding
Shanxi Tianchi (note 1)	PRC	RMB 90,000,000	—	81.31%	—	81.31%	81.31%	81.31%	Coal mining business
Shanxi Tianhao (note 1)	PRC	RMB 150,000,000	—	99.89%	—	99.89%	99.89%	99.89%	Methanol and electricity power business
Beisheng Industry and Trade (Note 1)	PRC	RMB 2,404,000	100%	—	100%	—	100%	100%	Coal Mining and sales
Shandong Yanmei Shipping Co., Ltd. ("Yanmei Shipping") (note1)	PRC	RMB 5,500,000	92%	—	92%	—	92%	92%	Transportation via rivers and lakes and the sales of coal and construction materials
Inner Mongolia Haosheng Coal Mining Co., Ltd ("Haosheng") (note 1)	PRC	RMB 904,900,000	77.75%	—	74.82%	—	77.75%	74.82%	Sales of coal mine machinery equipment and accessories
Zhongyan Trade Co., Ltd ("Zhongyan") (note 1)	PRC	RMB 2,100,000	52.38%	—	52.38%	—	52.38%	52.38%	Trade and storage in free trade zone
Yanzhou Coal Mining Yulin Neng Hua Co., Ltd ("Yulin") (note 1)	PRC	RMB 1,400,000,000	100%	—	100%	—	100%	100%	Methanol and electricity power business
Heze (note 1)	PRC	RMB 3,000,000,000	98.33%	—	98.33%	—	98.33%	98.33%	Coal mining and sales
Ordos (note 1)	PRC	RMB 8,100,000,000	100%	—	100%	—	100%	100%	Investment holding, coal mining and sales
Yize (note 1)	PRC	RMB 675,000,000	—	100%	—	100%	100%	100%	Development of methanol project
Inner Mongolia Rongxin Chemicals Co., Ltd ("Rongxin") (note 1)	PRC	RMB 648,360,000	—	100%	—	100%	100%	100%	Development of methanol project
Inner Mongolia Daxin Industrial Gas Co., Ltd ("Daxin Industrial") (note 1)	PRC	RMB 209,992,568	—	100%	—	100%	100%	100%	Development of methanol project
Xintai (note 1)	PRC	RMB 5,000,000	—	100%	—	100%	100%	100%	Coal mining and sales
Ordos Zhuanlongwan Coal Mining Company Limited ("Zhuanlongwan") (note 1)	PRC	RMB 5,050,000,000	—	100%	—	100%	100%	100%	Coal mining and sales, manufacturing and sales of mining equipment and machinery
Ordos Yingpanhao Coal Mining Company Limited ("Yingpanhao") (note 1)	PRC	RMB 300,000,000	—	100%	—	100%	100%	100%	Coal mining and sales, manufacturing and sales of mining equipment and machinery
Hua Ju Energy (note 1)	PRC	RMB 288,589,774	95.14%	—	95.14%	—	95.14%	95.14%	Electricity and heat supply

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

57. INFORMATION OF THE COMPANY (continued)

Details of the Company's major subsidiaries at December 31, 2015 and 2014 are as follows:

Name of subsidiary	Country of incorporation/ registration and operation	Issued and fully paid capital/ registered capital	Proportion of registered capital/ issued share capital held by the Company				Proportion of voting power held		Principal activities
			2015		2014		2015	2014	
			Directly	Indirectly	Directly	Indirectly			
Rizhao (note 1)	PRC	RMB 300,000,000	51%	—	51%	—	51%	51%	Coal wholesale management and others
Qingdao Yanmei Dongqi Energy Co., Ltd (“Dongqi”) (Note 1)	PRC	RMB 50,000,000	—	100%	—	100%	100%	100%	Coal and Related Products Wholesale
Trading Centre (Note 1)	PRC	RMB 100,000,000	51%	—	51%	—	51%	51%	Coal Mining and sales
Zhongyin Logistics (note 1)	PRC	RMB 300,000,000	100%	—	100%	—	100%	100%	Trade Broker and Agent
Zhongyin Financial (note 1)		RMB 2,060,000,000							
	PRC	RMB 500,000,000) (2014: RMB 500,000,000)	73%	24%	75%	25%	97%	100%	Financial leasing
Duanxin (Note 1)	PRC	RMB 810,000,000	100%	—	100%	—	100%	100%	Investment and assets management
Shandong Duanxin Supply Chain Management Co., Ltd (“Supply Chain”) (note 1)	PRC	RMB 200,000,000	100%	—	—	—	100%	—	Logistics, storage and leasing
Heze Duanxin Supply Chain Management Co., Ltd (“Heze Duanxin”) (note 1)	PRC	RMB 10,000,000	—	100%	—	—	100%	—	Logistics, storage and leasing
Dalateqi Duanxin Supply Chain Management Co., Ltd (“Dalateqi”) (note 1)	PRC	RMB 5,000,000	—	100%	—	—	100%	—	Logistics, storage and leasing
Ruifeng (note 1)	PRC	RMB 200,000,000	51%	—	—	—	51%	—	Trading
Yancoal Australia (note 2)	Australia	AUD 656,700,717	78%	—	78%	—	78%	78%	Investment holding
Austar Coal Mine Pty, Limited (“Austar”)	Australia	AUD 64,000,000	—	100%	—	100%	100%	100%	Coal mining business in Australia
Gloucester	Australia	AUD 719,720,808	—	100%	—	100%	100%	100%	Coal resource exploration development
Yancoal Australia Sales Pty Ltd	Australia	AUD 100	—	100%	—	100%	100%	100%	Coal sales
Yancoal SCN Ltd	Australia	AUD 5	—	100%	—	100%	100%	100%	Issue subordinated capital note
Yancoal Mining Services Ltd	Australia	AUD 100	—	100%	—	—	100%	—	Provide management services to the underground mines
Watagan Mining Company Pty Ltd	Australia	AUD 100	—	100%	—	—	100%	—	Holding company
Yancoal Resources Ltd	Australia	AUD 446,409,065	—	100%	—	100%	100%	100%	Coal mining business in Australia

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

57. INFORMATION OF THE COMPANY (continued)

Details of the Company's major subsidiaries at December 31, 2015 and 2014 are as follows:

Name of subsidiary	Country of incorporation/ registration and operation	Issued and fully paid capital/ registered capital	Proportion of registered capital/ issued share capital held by the Company				Proportion of voting power held		Principal activities	
			2015		2014		2015	2014		
			Directly	Indirectly	Directly	Indirectly				
Westralian Prospectors NL	Australia	AUD	93,001	—	100%	—	100%	100%	100%	No business in Australia
Eucla Mining NL	Australia	AUD	2	—	100%	—	100%	100%	100%	Coal mining
CIM Duralie Pty Ltd	Australia	AUD	665	—	100%	—	100%	100%	100%	No business in Australia
Duralie Coal Marketing Pty Ltd	Australia	AUD	2	—	100%	—	100%	100%	100%	No business in Australia
Duralie Coal Pty Ltd	Australia	AUD	2	—	100%	—	100%	100%	100%	Coal mining
Gloucester (SPV) Pty Ltd	Australia	AUD	2	—	100%	—	100%	100%	100%	Holdings company
Gloucester (Sub Holdings 1) Pty Ltd	Australia	AUD	2	—	100%	—	100%	100%	100%	Holdings company
Gloucester (Sub Holdings 2) Pty Ltd	Australia	AUD	2	—	100%	—	100%	100%	100%	Holdings company
SASE Pty Limited	Australia	AUD	9,650,564	—	90%	—	90%	90%	90%	No business in Australia, to be liquidated
Proserpina Coal Pty Ltd	Australia	AUD	1	—	100%	—	100%	100%	100%	Coal mining and sales
Yarrabee Coal Company Pty Ltd	Australia	AUD	92,080	—	100%	—	100%	100%	100%	Coal mining and sales
White Mining Limited	Australia	Ordinary shares AUD 3,300,000 A Shares AUD 200	—	100%	—	100%	100%	100%	100%	Investment holding and management of operations
Moolarben Coal Operations Pty Ltd	Australia	AUD	2	—	100%	—	100%	100%	100%	Management of coal operations
Moolarben Coal Mines Pty Limited	Australia	AUD	1	—	100%	—	100%	100%	100%	Coal business development
Felix NSW Pty Ltd	Australia	AUD	2	—	100%	—	100%	100%	100%	Investment holding
Moolarben Coal Sales Pty Ltd	Australia	AUD	2	—	100%	—	100%	100%	100%	Coal sales
CIM Mining Pty Ltd	Australia	AUD	30,180,720	—	100%	—	100%	100%	100%	No business in Australia
Donaldson Coal Holdings Limited	Australia	AUD	204,945,942	—	100%	—	100%	100%	100%	Holdings company
Monash Coal Holdings Pty Ltd	Australia	AUD	100	—	100%	—	100%	100%	100%	Dormant
Athena Coal Operation Pty Ltd	Australia	AUD	1	—	100%	—	100%	100%	100%	Dormant
Athena Coal sales Pty Ltd	Australia	AUD	1	—	100%	—	100%	100%	100%	Dormant
Paway Limited	British Virgin Islands	AUD	1	—	100%	—	100%	100%	100%	Dormant
White Mining Services Pty Limited	Australia	AUD	2	—	100%	—	100%	100%	100%	No business in Australia, to be liquidated
Ashton Coal Operations Pty Limited	Australia	AUD	5	—	100%	—	100%	100%	100%	Management of operations



**YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES**

57. INFORMATION OF THE COMPANY (continued)

Details of the Company's major subsidiaries at December 31, 2015 and 2014 are as follows:

Name of subsidiary	Country of incorporation/ registration and operation	Issued and fully paid capital/ registered capital	Proportion of registered capital/ issued share capital held by the Company				Proportion of voting power held		Principal activities
			2015		2014		2015	2014	
			Directly	Indirectly	Directly	Indirectly			
Ashton Coal mines Limited	Australia	AUD 5	—	100%	—	100%	100%	100%	Coal sales
White Mining (NSW) Pty Limited	Australia	AUD 10	—	100%	—	100%	100%	100%	Coal mining and sales
CIM Stratford Pty Ltd	Australia	AUD 21,558,606	—	100%	—	100%	100%	100%	Dormant
CIM Services Pty Ltd	Australia	AUD 8,400,002	—	100%	—	100%	100%	100%	Dormant
Donaldson Coal Pty Ltd	Australia	AUD 6,688,782	—	100%	—	100%	100%	100%	Coal mining and sales
Donaldson Coal Finance Pty Ltd	Australia	AUD 10	—	100%	—	100%	100%	100%	Investment company
Monash Coal Pty Ltd	Australia	AUD 200	—	100%	—	100%	100%	100%	Coal mining and sales
Stradford Coal Pty Ltd	Australia	AUD 10	—	100%	—	100%	100%	100%	Coal mining
Stradford Coal Marketing Pty Ltd	Australia	AUD 10	—	100%	—	100%	100%	100%	Coal sales
Abakk Pty Ltd	Australia	AUD 6	—	100%	—	100%	100%	100%	No business in Australia, to be liquidated
Newcastle Coal Company Pty Ltd	Australia	AUD 2,300,999	—	100%	—	100%	100%	100%	Coal mining and sales
Primecoal International Pty Ltd	Australia	AUD 1	—	100%	—	100%	100%	100%	No business in Australia, to be liquidated
Yancoal International (Holding) Co., Ltd	Hong Kong	USD 689,313,091	100%	—	100%	—	100%	100%	Investment holding
Yancoal International Resources Development Co., Limited	Hong Kong	USD 600,000	—	100%	—	100%	100%	100%	Coal resource exploration development
Yancoal International Technology Development Co., Limited	Hong Kong	USD 1,000,000	—	100%	—	100%	100%	100%	Coal mining technology Development, transfer and consultation
Yancoal International Trading Co., Limited	Hong Kong	USD 1,000,000	—	100%	—	100%	100%	100%	Entrepot trade
Yancoal Luxembourg Resources Holding Co., Ltd	Luxembourg	USD 500,000	—	100%	—	100%	100%	100%	Investment holding
Yancoal Canada Resources Holding Co., Ltd	Canada	USD 290,000,000	—	100%	—	100%	100%	100%	Potash exploration
Athena Holdings P/L	Australia	AUD 24,450,405	—	100%	—	100%	100%	100%	Holding company
Premier Coal Holdings P/L	Australia	AUD 321,613,108	—	100%	—	100%	100%	100%	Holding company
Tonford Holdings P/L	Australia	AUD 46,407,917	—	100%	—	100%	100%	100%	Holding company
Wilpeena Holdings P/L	Australia	AUD 3,457,381	—	100%	—	100%	100%	100%	Holding company
Yancoal Energy P/L	Australia	AUD 202,977,694	—	100%	—	100%	100%	100%	Holding company
Yancoal Technology (Holdings) Co. Ltd	Australia	AUD 75,407,506	—	100%	—	100%	100%	100%	Holding company

**YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES**

57. INFORMATION OF THE COMPANY (continued)

Details of the Company's major subsidiaries at December 31, 2015 and 2014 are as follows:

Name of subsidiary	Country of incorporation/ registration and operation	Issued and fully paid capital/ registered capital	Proportion of registered capital/ issued share capital held by the Company				Proportion of voting power held		Principal activities
			2015		2014		2015	2014	
			Directly	Indirectly	Directly	Indirectly			
Athena Coal Mine Pty Ltd	Australia	AUD 2	—	100%	—	100%	100%	100%	Coal exploration
Premier Coal Limited	Australia	AUD 8,779,250	—	100%	—	100%	100%	100%	Coal mining and sales
Tonford Pty Ltd	Australia	AUD 2	—	100%	—	100%	100%	100%	Coal exploration
Syntech Holdings Pty Ltd	Australia	AUD 223,470,552	—	100%	—	100%	100%	100%	Investment holding and management of coal operation
Syntech Holdings II Pty Ltd	Australia	AUD 6,318,490	—	100%	—	100%	100%	100%	Investment holding
UCC Energy Pty Limited	Australia	AUD 2	—	100%	—	100%	100%	100%	Ultra clean coal technology
Premier Char Pty Ltd	Australia	AUD 1,000,000	—	100%	—	100%	100%	100%	Charcoal Product Development
Yancoal Technology Development Pty Ltd	Australia	AUD 2	—	100%	—	100%	100%	100%	LTCC technology development and equipment rental
AMH (Chinchilla Coal) Pty Ltd	Australia	AUD 2	—	100%	—	100%	100%	100%	Coal exploration
Syntech Resources Pty Ltd	Australia	AUD 1,251,431	—	100%	—	100%	100%	100%	Coal mining and sales
Mountfield Properties Pty Ltd	Australia	AUD 100	—	100%	—	100%	100%	100%	Investment holding
Yankuang Donghua Heavy Industry Limited ("Donghua") (note 1)	PRC	RMB 370,567,964	100%	—	—	—	100%	—	Manufacturing of coal mining and excavating equipment
Yankuang Group Tangcun Industrial Co., Ltd ("Tangcun") (note 1)	PRC	RMB 51,000,000	—	100%	—	—	100%	—	Manufacturing and repair of machinery and cable
Shandong Yankuang Group Changlong Cable Manufacturing Co., Ltd ("Changlong") (note 1)	PRC	RMB 20,000,000	—	95%	—	—	95%	—	Manufacturing and sale of cable, rubber products
Zhoucheng Chengyan Material Inspection and Testing Co., Ltd ("Chengyan") (note 1)	PRC	RMB 300,000	—	100%	—	—	100%	—	Mining products supporting materials testing
Yankuang Group Mainland Machinery Co. Ltd ("Mainland Machinery") (note 1)	PRC	RMB 50,000,000	—	79.69%	—	—	79.69%	—	Manufacturing and sale of mining equipments
Yankuang Group Yanzhou Sanfanggang Structural Engineering ("Sanfanggang") (note 1)	PRC	RMB 8,000,000	—	62.50%	—	—	62.50%	—	Production and processing of steel engineering components
Yankuang Group Zoucheng Jinming Electrical Company Limited ("Jinming") (note 1)	PRC	RMB 50,000,000	—	100%	—	—	100%	—	Manufacturing, installation and repairment of electrical equipments

YANZHOU COAL MINING COMPANY LIMITED AND ITS SUBSIDIARIES

57. INFORMATION OF THE COMPANY (continued)

Details of the Company's major subsidiaries at December 31, 2015 and 2014 are as follows:

Name of subsidiary	Country of incorporation/ registration and operation	Issued and fully paid capital/ registered capital	Proportion of registered capital/ issued share capital held by the Company				Proportion of voting power held		Principal activities
			2015		2014		2015	2014	
			Directly	Indirectly	Directly	Indirectly			
Yankuang Group Zoucheng Dehailan Rubber Product Co., Ltd ("Dehailan") (note 1)	PRC	RMB 860,000	—	53.49%	—	—	53.49%	—	Processing and sale of composite pipe and plastic profile products
Yanzhou Dongfang Electrical Co., Ltd ("Dongfang") (note 1)	PRC	RMB 50,000,000	—	94.34%	—	—	94.34%	—	Manufacturing and installation of mining equipments
Yankuang Group Jintong Rubber Co., Ltd ("Jintong") (note 1)	PRC	RMB 6,600,000	—	54.55%	—	—	54.55%	—	Manufacturing and sale of rubber products
Jintong Latin	Peru	USD 360,000		51%			51%		Sale of rubber products, import and export of mining machineries

Unless otherwise specified, the capital of the above subsidiaries are registered capital (those established in the PRC) or ordinary shares (those established in other countries).

Note 1: Shanxi Neng Hua, Shanxi Tianchi, Shanxi Tianhao, Beisheng, Yanmei Shipping, Haosheng, Zhongyan, Yulin, Heze, Ordos, Yize, Rongxin, Daxin Industrial, Xintai, Zhuanlongwan, Yingpanhao, Hua Ju Energy, Rizhao, Dongqi, Trading Centre, Zhongyin Logistics, Zhongyin Leasing, Duanxin, Supply Chain, Heze Duanxin, Dalateqi, Ruifeng, Donghua, Tangcun, Changlong, Chengyan, Mainland machinery, Sanfanggang, Jinming, Dehailan, Dongfang and Jintong are established in the PRC as limited liability companies.

Note 2: The investment cost of RMB3,781,606,000 in respect of investment in Yancoal Australia was included in investment in subsidiaries. As at December 31, 2015, the market value of these shares was approximately RMB366,620,000 (AUD124,078,000) (2014: RMB622,550,000 (AUD124,078,000))

*This English version is translated from the Chinese version. In case of any discrepancy between the English translation and the original Chinese text, the Chinese text shall prevail.*

**ARTICLES OF ASSOCIATION**

**OF**

**YANZHOU COAL MINING COMPANY LIMITED**

(As approved by the 2014 annual general meeting of the Company)

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OF YANZHOU COAL MINING COMPANY LIMITED

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ARTICLES OF ASSOCIATION OF  
YANZHOU COAL MINING COMPANY LIMITED

CHAPTER 1: GENERAL PROVISIONS

- Article 1. These Articles of Association are drawn up in accordance with the “Company Law of the People’s Republic of China” (the “Company Law”), the “Securities Law of the People’s Republic of China”, the “Mandatory Provisions for the Articles of Association of the Company to be Listed Overseas” (“Mandatory Provisions”) and other relevant laws and regulations with the aims of protecting the legitimate interests of Yanzhou Coal Mining Company Limited (the “Company”) and its shareholders and creditors, and regulating the organization and conducts of the Company.
- Article 2. The Company is a joint stock limited company established in accordance with the Company Law, “State Council’s Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Companies Limited by Share” (the “Special Regulations”) and other relevant laws and regulations of the State.
- The Company was established by way of promotion with the approval of the People’s Republic of China’s State Commission for Restructuring the Economic System on 24 September 1997, as evidenced by approval document *Ti Gai Sheng [1997]* no. 154 of 1997. It is registered with and has obtained a business licence from China’s State Administration Bureau of Industry and Commerce on 25 September 1997. The Company’s business licence number is: 370000400001016.
- The promoter of the Company is: Yankuang (Group) Corporation Ltd.
- Article 3. The Company’s registered Chinese name: 兖州煤業股份有限公司  
The Company’s registered English name: Yanzhou Coal Mining Company Limited
- Article 4. The Company’s address : 298 South Fushan Road  
Zoucheng  
Shandong Province  
China  
Telephone number : 0537-5383310  
Facsimile number : 0537-5383311  
Postal code : 273500
- Article 5. The Company’s legal representative is the Chairman of the board of directors of the Company.
- Article 6. The Company is a joint stock limited company which has perpetual existence.

- Article 7. The Company's Articles of Association shall take effect from the date of incorporation of the Company.  
From the date on which these Articles of Association come into effect, this Articles of Association shall constitute a legally binding document regulating the Company's organisation and activities, and the rights and obligations between the Company and each shareholder and among the shareholders inter se.
- Article 8. These Articles of Association are binding on the Company and its shareholders, directors, supervisors, general manager, deputy general managers and other senior officers of the Company; all of whom are entitled, according to these Articles of Association, to make suggestions in respect of rights concerning the affairs of the Company.  
A shareholder may take action against the Company pursuant to these Articles of Association and vice versa. A shareholder may also take action against another shareholder, the directors, supervisors, general manager, deputy general managers and other senior officers of the Company pursuant to these Articles of Association.  
The actions referred to in the preceding paragraph include court proceedings and arbitration proceedings.
- Article 9. All assets of the Company are divided into shares of equal value. The shareholders are liable for the Company up to the amount of shares they subscribed and all the Company's assets are made liable for its debts.  
The Company may invest in other limited liability companies or limited stock companies. The Company is liable for an invested company up to the amount of capital it contributes to the invested company.
- Article 10. Senior officers of the Company refer to the Company's general manager, deputy general manager, financial controller, chief engineer and secretary to the board of directors.

## CHAPTER 2: THE COMPANY'S OBJECTIVES AND SCOPE OF BUSINESS

- Article 11. The Company's objectives are:
- (a) To comply with the laws and regulations in the market;
  - (b) To continue to explore business opportunities which are suitable for the Company;

- (c) To fully utilise every resource of the Company;
- (d) To place emphasis on the training of its employees and technological development;
- (e) To provide the society with products which are competitive; and
- (f) To use its best endeavours to maximise its profits.

Article 12. The Company's scope of business shall be consistent with and subject to the scope of business approved by the authority responsible for the registration of the Company.

The business scope of the company includes: selection and sale of coal (among others, the export of coal should be made through companies with coal export right according to the existing state regulations); transportation of goods through self-owned railway within the mining area; transportation of goods through highway; operation of ports; manufacture, sale, lease, repair, installation and dismantlement of machinery and equipments in the mining area; production and sale of other mining materials; sale and lease of electronic equipments and sale of parts; sale of metallic materials, electronic products, construction materials, timber, rubber products and methanol; composition of mining, science and technological services; property development within the mining areas, property leasing and provision of services such as dining and accommodation; production and sale of coal residual stones as construction materials; sale of coke and iron ore; import and export of goods and technology; warehousing; automobile repairs; labour dispatch; property management service, landscaping, sewage treatment; heat supply.

### CHAPTER 3: SHARES AND REGISTERED CAPITAL

Article 13. There must, at all times, be ordinary shares in the Company. Subject to the approval of the companies approving department authorised by the State Council, the Company may, according to its requirements, create different classes of shares.

Article 14. Shares of the Company are in the form of share certificates.

Article 15. The issue of shares by the Company shall adhere to the principles of openness, fairness and equitable. Every share of the same class shall rank *pari passu* to every other share of the same class.

Shares of the same class issued at the same time shall have the same terms and price. The same amount of money is payable by a unit or an individual subscribing the share.



- Article 16. The shares issued by the Company shall each have a par value of Renminbi one yuan. “Renminbi” means the legal currency of the PRC.
- Article 17. Subject to the approval of the State Council Securities Policy Committee, the Company may issue shares to Domestic Investors and Foreign Investors.
- “Foreign Investors” mean those investors who subscribe for the Company’s shares and who are located in foreign countries and in the regions of Hong Kong, Macau and Taiwan. “Domestic Investors” mean those investors who subscribe for the Company’s shares and who are located within the territory of the PRC.
- Article 18. Shares which the Company issues to Domestic Investors for subscription in Renminbi shall be referred to as “Domestic-Invested Shares”. Shares which the Company issues to Foreign Investors for subscription in foreign currencies shall be referred to as “Foreign-Invested Shares”. Foreign-Invested Shares which are listed overseas are called “Overseas-Listed Foreign-Invested Shares”. “Foreign currencies” mean the legal currencies of countries or districts outside the PRC which are recognised by the foreign exchange authority of the State and which can be used to pay the share price to the Company.
- Domestic-Invested Shares issued by the Company shall be referred to as “A Shares”. Overseas-Listed Foreign-Invested Shares issued by the Company and which are listed in Hong Kong shall be referred to as “H Shares”. H Shares as shares which have been admitted for listing on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the par value of which is denominated in Renminbi and which are subscribed for and traded in Hong Kong dollars. H Shares can also be listed on a stock exchange in the United States in the form of American Depository Receipts.
- Article 19. Subject to the approval of the companies approving department authorised by the State Council, the Company has issued a total of 4,918,400,000 ordinary shares, of which 1,670,000,000 ordinary shares were issued to the promoters at the time of establishment.
- Article 20. The share capital structure of the Company is as follows: 4,918,400,000 ordinary shares, of which (a) 2,600,000,000 shares, which represent 52.86% of the Company’s share capital, are held by Yankuang (Group) Corporation Ltd. as domestic legal person shares; (b) 1,958,400,000 shares, which represent 39.82% of the Company’s share capital, are held by the H Shares shareholders; and (c) 360,000,000 shares, which represent 7.32% of the Company’s share capital, are held by the A Shares shareholders.
- Article 21. The Company’s board of directors may take all necessary action for the issuance of Overseas-Listed Foreign-Invested Shares and Domestic-Invested Shares after proposals for issuance of the same have been approved by the State Council’s securities authorities.

The Company may implement its proposal to issue Overseas-Listed Foreign-Invested Shares and Domestic-Invested Shares pursuant to the preceding paragraph within fifteen (15) months from the date of approval by the State Council's securities authorities.

Article 22. Where the total number of shares stated in the proposal for the issuance of shares include Overseas-Listed Foreign-Invested Shares and Domestic-Invested Shares, such shares should be fully subscribed for at their respective offerings. If the shares cannot be fully subscribed for all at once due to special circumstances, the shares may, subject to the approval of the State Council's securities authorities, be issued in separate branches.

Article 23. The registered capital of the Company shall be RMB4,918,400,000. The Company shall register its registered capital with the state industry and commerce department and make the necessary filings with the companies approving department authorised by the State Council and the State Council's securities authorities.

Article 24. The Company may, based on its operating and development needs, authorise the increase of its capital pursuant to these Articles of Association.

The Company may increase its capital in the following ways:

- (1) by offering new shares for subscription by specified or unspecified investors;
- (2) by issuing new shares to its existing shareholders;
- (3) by allotting bonus shares to its existing shareholders;
- (4) to increase the capital by way of transfer from reserve;
- (5) by any other means which is permitted by law and administrative regulation.

After the Company's increase of share capital by means of the issuance of new shares has been approved in accordance with the provisions of these Articles of Association, the issuance thereof should be made in accordance with the procedures set out in the relevant laws and administrative regulations.

Article 25. Unless otherwise stipulated in the relevant laws or administrative regulations, shares in the Company shall be freely transferable and are not subject to any lien.

Article 26 The Directors, Supervisors and Senior Officers of the Company shall declare to the Company their holdings in the Company's shares and inform the same if there are any changes in their holdings subsequently. During their terms of office, shares being transferred every year must not exceed 25% of their holdings in the Company's shares. No transfer of their holdings shall be made within one year after the Company's shares were listed. No transfer of their holdings in the Company's shares shall be made within six months after they cease to hold their respective offices.

Article 27 When Directors, Supervisors or Senior Officers of the Company or shareholders holding more than 5% of the shares of the Company sell their shares within six months after they are acquired or purchase shares within six months after they are disposed of, the board of directors shall repatriate any profits derived from such dealings and the profits derived shall belong to the Company. However, for securities companies which have acquired shares underwritten and become shareholders having more than 5% of the shares of the Company shall not be restricted by the six-month restriction mentioned above when they sell their shares.

If the board of directors fails to enforce the provisions as set out above, the shareholders are entitled to request the board of directors to enforce them within thirty days. If the board of directors still fails to enforce within the said timeline, the shareholders are entitled to commence legal proceeding at the People's Court directly in their own names in the interests of the company.

If the board of directors fails to enforce the first clause, the directors responsible shall be liable pursuant to the laws."

Article 28 The Company shall not accept the Company's shares as the object of a pledge.

#### CHAPTER 4: REDUCTION OF CAPITAL AND REPURCHASE OF SHARES

Article 29. The Company may reduce its registered share capital. In so doing, it shall act according to the Company Law, other relevant provisions and these Articles of Association.

Article 30. The Company must prepare a balance sheet and an inventory of assets when it reduces its registered capital.

The Company shall notify its creditors within ten (10) days of the date of the Company's resolution for reduction of capital and shall publish an announcement in a newspaper at least three (3) times within thirty (30) days of the date of such resolution. A creditor has the right within thirty (30) days of receipt of the notice from the Company or, in the case of a creditor who does not receive such notice, within forty-five (45) days of the date of the first public announcement, to require the Company to repay its debts or to provide a corresponding guarantee for such debt.

- Article 31. The Company may, in accordance with the procedures set out in these Articles of Association and with the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:
- (1) cancellation of shares for the purposes of reducing its capital;
  - (2) merging with another company that holds shares in the Company;
  - (3) to grant the shares as incentives to the Company's staff;
  - (4) shareholders who disagree with the resolutions for the merger and separation of the Company made in a general meeting may demand the Company to purchase their shares.”
  - (5) other circumstances permitted by laws and administrative regulations.

Apart from the above, the Company is not allowed to engage in trading of its own shares.

- Article 32. The Company may repurchase shares in one of the following ways, with the approval of the relevant governing authority of the State:
- (1) by making a general offer for the repurchase of shares to all its shareholders on a pro rata basis;
  - (2) by repurchasing shares through public dealing on a stock exchange;
  - (3) by repurchasing shares outside of the stock exchange by means of an off-market agreement;
  - (4) other means as authorized by the competent securities authorities under the State Council.

- Article 33. The Company must obtain the prior approval of the shareholders in a general meeting (in the manner stipulated in these Articles of Association) before it can repurchase shares outside of the stock exchange by means of an off-market agreement. The Company may, by obtaining the prior approval of the shareholders in a general meeting (in the same manner), release, vary or waive its rights under an agreement which has been so entered into.

An agreement for the repurchase of shares referred to in the preceding paragraph includes (without limitation) an agreement to become liable to repurchase shares or an agreement to have the right to repurchase shares.

The Company may not assign an agreement for the repurchase of its shares or any right contained in such an agreement.

Article 34

The Company must obtain the prior approval of the shareholders in a general meeting before it can repurchase shares pursuant to the reasons set out in these Articles of Association 31 (1) to (3). Following shares being repurchased by the Company pursuant to the provisions in Article 31, in the case of (1), the shares repurchased shall be cancelled within 10 days of the completion of the repurchase. In the case of (2) and (4), the shares repurchased shall be transferred or cancelled within six months of the completion of the repurchase.

The aggregate par value of the cancelled shares shall be deducted from the Company's registered share capital.

The shares the Company repurchases in accordance with the provisions in Article 31(3) shall not be more than 5% of the total issued shares of the Company. The funding for the repurchase shall be provided from the profit after tax. The shares repurchased shall be transferred to the staff within one year.

Article 35.

Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued shares:

- (1) where the Company repurchases shares at par value, payment shall be made out of book surplus distributable profits of the Company or out of proceeds of a new issue of shares made for that purpose;
- (2) where the Company repurchases shares of the Company at a premium to its par value, payment up to the par value may be made out of the book surplus distributable profits of the Company or out of the proceeds of a new issue of shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows:
  - (i) if the shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company;
  - (ii) if the shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of the Company or out of the proceeds of a new issue of shares made for that purpose, provided that the amount paid out of the proceeds of the new issue shall not exceed the aggregate amount of premiums received by the Company on the issue of the shares repurchased nor shall it exceed the book value of the Company's capital common reserve fund account (including the premiums on the new issue) at the time of the repurchase;

- (3) the Company shall make the following payments out of the Company's distributable profits:
  - (i) payment for the acquisition of the right to repurchase its own shares;
  - (ii) payment for variation of any contract for the repurchase of its shares;
  - (iii) payment for the release of its obligation(s) under any contract for the repurchase of shares;
- (4) after the Company's registered capital has been reduced by the aggregate par value of the cancelled shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for payment of the par value of shares which have been repurchased shall be transferred to the Company's capital common reserve fund account.

#### CHAPTER 5: FINANCIAL ASSISTANCE FOR ACQUISITION OF SHARES

Article 36. The Company and its subsidiaries shall not, at any time, provide any form of financial assistance to a person who is acquiring or is proposing to acquire shares in the Company. This includes any person who directly or indirectly incurs any obligations as a result of the acquisition of shares in the Company (the "Obligor").

The Company and its subsidiaries shall not, at any time, provide any form of financial assistance to the Obligor for the purposes of reducing or discharging the obligations assumed by such person.

This Article shall not apply to the circumstances specified in Article 38 of this Chapter.

Article 37. For the purposes of this Chapter, "financial assistance" includes (without limitation) the following:

- (1) gift;
- (2) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the Obligor), compensation (other than compensation in respect of the Company's own default) or release or waiver of any rights;

- (3) provision of loan or any other agreement under which the obligations of the Company are to be fulfilled before the obligations of another party, or the change in parties to, or the assignment of rights under, such loan or agreement;
- (4) any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or when its net assets would thereby be reduced to a material extent.

For the purposes of this Chapter, “assumption of obligations” includes the assumption of obligations by way of contract or by way of arrangement (irrespective of whether such contract or arrangement is enforceable or not and irrespective of whether such obligation is to be borne solely by the Obligor or jointly with other persons) or by any other means which results in a change in his financial position.

Article 38. The following actions shall not be deemed to be activities prohibited by Article 36 of this Chapter:

- (1) the provision of financial assistance by the Company where the financial assistance is given in good faith in the interests of the Company, and the principal purpose of which is not for the acquisition of shares in the Company, or the giving of the financial assistance is an incidental part of some larger purpose of the Company;
- (2) the lawful distribution of the Company’s assets by way of dividend;
- (3) the allotment of bonus shares as dividends;
- (4) a reduction of registered capital, a repurchase of shares of the Company or a reorganisation of the share capital structure of the Company effected in accordance with these Articles of Association;
- (5) the lending of money by the Company within its scope of business and in the ordinary course of its business, where the lending of money is part of the scope of business of the Company (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits);
- (6) contributions made by the Company to the employee share ownership schemes (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits).

CHAPTER 6: SHARE CERTIFICATES AND  
REGISTER OF SHAREHOLDERS

Article 39. Share certificates of the Company shall be in registered form.

The share certificate of the Company shall, aside from matters required by the Company Law and the Special Regulations, also contain other matters required to be stated therein by the stock exchange(s) on which the Company's shares are listed.

Article 40. Share certificates of the Company shall be signed by the Chairman of the Company's board of directors. Where the stock exchange(s) on which the Company's shares are listed require other senior officer(s) of the Company to sign on the share certificates, the share certificates shall also be signed by such senior officer(s). The share certificates shall take effect after being sealed or imprinted with the seal of the Company. The share certificate shall only be sealed with the Company's seal under the authorisation of the board of directors. The signatures of the Chairman of the board of directors or other senior officer(s) of the Company may be printed in mechanical form.

Article 41. The Company shall keep a register of shareholders based on the evidence provided by the share registration institution which shall contain the following particulars:

- (1) the name (title) and address (residence), the occupation or nature of each shareholder;
- (2) the class and quantity of shares held by each shareholder;
- (3) the amount paid-up on or agreed to be paid-up on the shares held by each shareholder;
- (4) the share certificate number(s) of the shares held by each shareholder;
- (5) the date on which each person was entered in the register as a shareholder;
- (6) the date on which any shareholder ceased to be a shareholder.

Unless there is evidence to the contrary, the register of shareholders shall be sufficient evidence of the shareholders' shareholdings in the Company.

Article 42. The Company may, in accordance with the mutual understanding and agreements made between the State Council Securities Policy Committee and overseas securities regulatory organisations, maintain the register of shareholders of Overseas-Listed Foreign-Invested Shares overseas and appoint overseas agent(s) to manage such register of shareholders. The original register of shareholders for holders of H Shares shall be maintained in Hong Kong.



A duplicate register of shareholders for the holders of Overseas-Listed Foreign-Invested Shares shall be maintained at the Company's residence. The appointed overseas agent(s) shall ensure consistency between the original and the duplicate register of shareholders at all times.

If there is any inconsistency between the original and the duplicate register of shareholders for the holders of Overseas-Listed Foreign-Invested Shares, the original register of shareholders shall prevail.

Article 43. The Company shall have a complete register of shareholders which shall comprise the following parts:

- (1) the register of shareholders which is maintained at the Company's residence (other than those share registers which are described in sub-paragraphs (2) and (3) of this Article);
- (2) the register of shareholders in respect of the holders of Overseas-Listed Foreign-Invested Shares of the Company which is maintained in the same place as the overseas stock exchange on which the shares are listed; and
- (3) the register of shareholders which are maintained in such other place as the board of directors may consider necessary for the purposes of the listing of the Company's shares.

Article 44. Different parts of the register of shareholders shall not overlap. No transfer of any shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register.

Amendments or rectification of the register of shareholders shall be made in accordance with the laws of the place where the register of shareholders is maintained.

Article 45. All Overseas-Listed Foreign-Invested Shares listed in Hong Kong which have been fully paid-up may be freely transferred in accordance with these Articles of Association. However, unless such transfer complies with the following requirements, the board of directors may refuse to recognise any instrument of transfer and would not need to provide any reason therefor:

- (1) a fee of HK\$2.50 per instrument of transfer or such higher amount as may be agreed by the Stock Exchange has been paid to the Company for registration of the instrument of transfer and other documents relating to or which will affect the right of ownership of the shares;

- (2) the instrument of transfer only relates to Foreign-Listed Foreign-Invested Shares listed in Hong Kong;
- (3) the stamp duty which is chargeable on the instrument of transfer has already been paid;
- (4) the relevant share certificate(s) and any other evidence which the board of directors may reasonably require to show that the transferor has the right to transfer the shares have been provided;
- (5) if it is intended that the shares be transferred to joint owners, the maximum number of joint owners shall not be more than four (4);
- (6) the Company does not have any lien on the relevant shares.

If the Company refuses to register any transfer of shares, the Company shall within two (2) months of formal application for the transfer provide the transferor and transferee with a notice of refusal to register such transfer.

Article 46. No change may be made in the register of shareholders as a result of a transfer of shares within thirty (30) days prior to the date of a shareholders' general meeting or within five (5) days before the record date for the Company's distribution of dividends.

Article 47. The board of directors or the convenor of the general meeting shall decide on a date for the determination of rights attaching to shares in the Company when the Company convenes a shareholders' meeting, distributes dividend, liquidates or engages in activities that required the determination of rights attaching to shares in the Company. The shareholders of the Company shall be such persons who appear in the register of shareholders at the close of such determination date.

Article 48. Any person aggrieved and claiming to be entitled to have his name (title) entered in or removed from the register of shareholders may apply to a court of competent jurisdiction for rectification of the register.

Article 49. Any person who is a registered shareholder or who claims to be entitled to have his name (title) entered in the register of shareholders in respect of shares in the Company may, if his share certificate (the "original certificate") relating to the shares is lost, apply to the Company for a replacement share certificate in respect of such shares (the "Relevant Shares").

Application by a holder of Domestic-Invested Shares, who has lost his share certificate, for a replacement share certificate shall be dealt with in accordance with Article 144 of the Company Law."

Application by a holder of Overseas-Listed Foreign Shares, who has lost his share certificate, for a replacement share certificate may be dealt with in accordance with the law of the place where the original register of shareholders of holders of Overseas-Listed Foreign-Invested Shares is maintained, the rules of the stock exchange or other relevant regulations.

The issue of a replacement share certificate to a holder of H Shares, who has lost his share certificate, shall comply with the following requirements:

- (1) The applicant shall submit an application to the Company in a prescribed form accompanied by a notarial certificate or a statutory declaration (i) stating the grounds upon which the application is made and the circumstances and evidence of the loss; and (ii) declaring that no other person is entitled to have his name entered in the register of shareholders in respect of the Relevant Shares.
- (2) The Company has not received any declaration made by any person other than the applicant declaring that his name shall be entered into the register of shareholders in respect of such shares before it decides to issue a replacement share certificate to the applicant.
- (3) The Company shall, if it intends to issue a replacement share certificate, publish a notice of its intention to do so at least once every thirty (30) days within a period of ninety (90) consecutive days in such newspapers as may be prescribed by the board of directors.
- (4) The Company shall, prior to publication of its intention to issue a replacement share certificate, deliver to the stock exchange on which its shares are listed, a copy of the notice to be published and may publish the notice upon receipt of confirmation from such stock exchange that the notice has been exhibited in the premises of the stock exchange. Such notice shall be exhibited in the premises of the stock exchange for a period of ninety (90) days.

In the case of an application which is made without the consent of the registered holder of the Relevant Shares, the Company shall deliver by mail to such registered shareholder a copy of the notice to be published.

- (5) If, by the expiration of the 90 day period referred to in paragraphs (3) and (4) of this Article, the Company has not have received any challenge from any person in respect of the issuance of the replacement share certificate, it may issue a replacement share certificate to the applicant pursuant to his application.
- (6) Where the Company issues a replacement share certificate pursuant to this Article, it shall forthwith cancel the original share certificate and document the cancellation of the original share certificate and issuance of a replacement share certificate in the register of shareholders accordingly.
- (7) All expenses relating to the cancellation of an original share certificate and the issuance of a replacement share certificate shall be borne by the applicant and the Company is entitled to refuse to take any action until reasonable security is provided by the applicant therefor.

Article 50. Where the Company issues a replacement share certificate pursuant to these Articles of Association and a bona fide purchaser acquires or becomes the registered owner of such shares, his name (title) shall not be removed from the register of shareholders.

Article 51. The Company shall not be liable for any damages sustained by any person by reason of the cancellation of the original share certificate or the issuance of the replacement share certificate unless the claimant is able to prove that the Company has acted in a deceitful manner.

#### CHAPTER 7: SHAREHOLDERS' RIGHTS AND OBLIGATIONS

Article 52. A shareholder of the Company is a person who lawfully holds shares in the Company and whose name (title) is entered in the register of shareholders. A shareholder shall enjoy rights and assume obligations according to the class and amount of shares held by him; shareholders who hold shares of the same class shall enjoy the same rights and assume the same obligations.

Article 53. The ordinary shareholders of the Company shall enjoy the following rights:

- (1) the right to receive dividends and other distributions in proportion to the number of shares held;
- (2) the right to attend or appoint a proxy to attend shareholders' meeting and to vote thereat;
- (3) the right of supervisory management over the Company's business operations and the right to present proposals or to raise queries;
- (4) the right to transfer, grant or pledge shares so held in accordance with laws, administrative regulations and provisions of these Articles of Association;
- (5) the right to obtain relevant information in accordance with these Articles of Association, including:
  - (i) the right to obtain a copy of these Articles of Association, subject to payment of costs;

- (ii) the right to inspect and copy, subject to payment of a reasonable fee:
  - (a) all parts of the register of shareholders;
  - (b) personal particulars of each of the Company's directors, supervisors and other senior officers, including:
    - (aa) present and former name and alias;
    - (bb) principal address (place of residence);
    - (cc) nationality;
    - (dd) primary and all other part-time occupations and duties;
    - (ee) identification documents and the numbers thereof;
  - (c) report on the state of the Company's share capital;
  - (d) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares repurchased by the Company since the end of the last accounting year and the aggregate amount paid by the Company for this purpose;
  - (e) minutes of shareholders' general meetings;
  - (f) the copies of the Company's debentures, resolutions of the meetings of the board of directors, resolutions of the meetings of the Supervisory Committee, financial and accounting reports
- (6) in the event of the termination or liquidation of the Company, the right to participate in the distribution of surplus assets of the Company in accordance with the number of shares held;
- (7) shareholders who disagree with the resolutions for the merger and separation of the Company made in a general meeting may demand the Company to purchase their shares.
- (8) other rights conferred by laws, administrative regulations and these Articles of Association.

- Article 54 Shareholders proposing to inspect the relevant information as set out in the previous Articles or collect information shall produce the relevant proofs of the type and quantity of shares that they are holding to the Company. The Company shall provide the shareholders such information as required after verification of the identities of the shareholders.
- Article 55 In the event that the resolution of a shareholders' meeting or a board meeting is against the law or administrative rules and has infringed the legitimate interest of a shareholder, the shareholder shall have the right to submit to the People's Court to declare the resolution invalid.
- In the event the procedures for convening the shareholders' meeting and the board of directors meeting and voting thereat violate the law, administrative regulations or the provisions of these Articles, or the content resolved being in contrary to these Articles, the shareholder shall have the right to submit to the People's Court to rescind the resolution within 60 days after the resolution is made.
- Article 56 In the event the directors and senior officers violate the law, administrative regulations or the provisions of these Articles in performing the Company's duties, and incur a loss to the Company, shareholder(s), either individually or jointly holding more than 1% of the Company's shares for more than 180 consecutive days shall have the right to submit a written request to the Supervisory Committee for commencing legal proceedings in the People's Court. In the event the Supervisory Committee violates the law, administrative regulations or the provisions of these Articles in performing the Company's duties, and incur a loss to the Company, the shareholders shall have the right to submit a written request to the board of directors for commencing legal proceedings in the People's Court.
- In the event the Supervisory Committee or the board of directors refuses to commence legal proceedings after receiving the written request from the shareholders as provided in the paragraph above, or has not commenced legal proceedings 30 days after receiving the written request, or in case of emergency, without commencing legal proceedings forthwith will result in damages in the interests of the Company considerably difficult to rectify, the shareholders as provided in the paragraph above shall have the right to commence legal proceedings directly in the People's Court in their own names for the interests of the Company.
- In the event the legal interests of the Company are being violated by other parties and incur a loss to the Company, the shareholders as provided in the first paragraph of this Article shall commence legal proceedings in the People's Court in accordance with the provisions in the earlier two paragraphs.
- Article 57 In the event the directors and senior officers violate the law, administrative regulations or the provisions of these Articles, and the rights of shareholders are prejudicially affected, the shareholders shall have the right to commence legal proceeding in the People's Court.

Article 58. The ordinary shareholders of the Company shall assume the following obligations:

- (1) to comply with these Articles of Association;
- (2) to pay subscription monies according to the number of shares subscribed and the method of subscription;
- (3) no return of capital is allowed apart from those as provided in the laws and regulations;
- (4) The right of the shareholder shall not be abused to infringe the interests of the Company or other shareholders. The independent status of corporate legal person and the limited liabilities of the shareholder shall not be abused to infringe the interests of the Company's creditors;

The Company's shareholder who abuses his rights and result in losses to the Company or its other shareholders shall assume indemnity liabilities pursuant to the laws.

The Company's shareholder who abuses the independent status of corporate legal person and the limited liabilities of the shareholder to avoid debts and seriously infringe the interests of the Company's creditors shall assume incidental liabilities to the Company's debts.

- (5) other obligations imposed by laws, administrative regulations and these Articles of Association.

Shareholders are not liable to make any further contribution to the share capital other than according to the terms which were agreed by the subscriber of the relevant shares at the time of subscription.

Article 59. Shareholder holding more than 5% of the shares with voting right in the Company shall submit a written report to the Company when creating a pledge over its shares on the date the same is effected.

Article 60. In addition to the obligations imposed by laws and administrative regulations or required by the listing rules of the stock exchange on which the Company's shares are listed, a controlling shareholder (as such term is defined in the following Article) shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of all or part of the shareholders of the Company:

- (1) to relieve a director or supervisor of his duty to act honestly in the best interests of the Company;

- (2) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the Company's assets in any way, including (without limitation) opportunities which are beneficial to the Company;
- (3) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation) rights to distributions and voting rights (save pursuant to a restructuring which has been submitted for approval by the shareholders in a general meeting in accordance with these Articles of Association).

Article 61. For the purpose of the foregoing Article, a "controlling shareholder" means a person who satisfies any one of the following conditions:

- (1) a person who, acting alone or in concert with others, has the power to elect more than half of the board of directors;
- (2) a person who, acting alone or in concert with others, has the power to exercise or to control the exercise of 30 % or more of the voting rights in the Company;
- (3) a person who, acting alone or in concert with others, holds 30 % or more of the issued and outstanding shares of the Company;
- (4) a person who, acting alone or in concert with others, has de facto control of the Company in any other way.

Article 62. The controlling shareholders of the Company and persons in actual control of the Company shall not damage the lawful rights of the Company and the public shareholders by means of connected transaction.

Those who violate the provisions in the paragraph above resulting in loss on the Company shall assume indemnity liabilities.

The controlling shareholders of the Company and persons in actual control of the Company have fiduciary duties towards the Company and the public shareholders. The controlling shareholders shall exercise his rights as investors strictly in accordance with the laws. The controlling shareholders shall not damage the lawful rights of the Company and the public shareholders by means of profit distribution, assets restructuring, external investment, use of capital and loan guarantee etc and shall not take advantage of its controlling position to damage the interest of the Company and the public shareholders.

Article 63. In operational fund transactions between the controlling shareholder of the Company and its related parties, appropriation of funds of the Company shall be strictly restricted. The controlling shareholder of the Company and its related parties shall not require the Company to pay advance fees such as salary, benefits, insurance, advertising, and they shall not undertake costs and other expenses on each other's behalf.



Article 64. The Company shall establish a special system to prevent the appropriation of assets of the Company by the controlling shareholder of the Company and its related parties. The Company shall conduct periodic self-inspections as to whether the controlling shareholder of the Company and its related parties have engaged in non-operational appropriations of funds of the Company and report such matters to the relevant regulatory authorities within 10 business days before publication of its quarterly- reports, interim reports and annual reports.

If there are non-operational appropriations of funds of the Company conducted by the controlling shareholder of the Company and the Company fails to prevent such appropriations of funds or fails to recover such funds so appropriated in a timely manner, the Board shall be entitled to realize the repayment of such by, among others, applying to a court for an injunction and auction of equities of the Company held by its controlling shareholder.

Article 65. A sound investor relationship management working system shall be established, and the communication and interaction with the shareholders especially the public shareholders shall be initiated and strengthened through various ways.

## CHAPTER 8: SHAREHOLDERS' GENERAL MEETINGS

### Section 1 General Rules for Shareholders' General Meetings

Article 66. The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law.

Article 67. The shareholders' general meeting shall have the following functions and powers:

- (1) to decide on the Company's operational policies and investment plans;
- (2) to elect and replace directors who are not staff representatives and to decide on matters relating to the remuneration of directors;
- (3) to elect and replace supervisors who represent the shareholders and to decide on matters relating to the remuneration of supervisors;
- (4) to examine and approve the board of directors' reports;
- (5) to examine and approve the supervisory committee's reports;

- (6) to examine and approve the Company's proposed annual preliminary and final financial budgets;
- (7) to examine and approve the Company's profit distribution plans and loss recovery plans;
- (8) to decide on the increase or reduction of the Company's registered capital;
- (9) to decide on matters such as merger, division, dissolution, liquidation or amendment to the method of operation of the Company;
- (10) to decide on the issue of debentures by the Company;
- (11) to decide on the appointment, dismissal and non-reappointment of the accountants of the Company;
- (12) to amend these Articles of Association;
- (13) to consider and approve issues of guarantee as provided in Article 66;
- (14) to consider issues on acquisitions and disposals of assets during a year which exceeds 30% of the latest audited total assets of the Company;
- (15) to consider the mutual provision of loans among overseas subsidiaries of the Company, where the accumulative amount of such mutual loans in 12 consecutive months account for more than 50% of the latest audited net asset value of the Company calculated on the basis of PRC accounting standards, provided that such mutual loans are in compliance with the laws, rules and relevant regulations of the relevant place(s) of incorporation of such overseas subsidiaries;
- (16) to consider and approve issues on the change in use of proceeds;
- (17) to consider share incentive schemes;
- (18) other matters to be decided in shareholders' general meeting as provided by the laws, administrative regulations, departmental rules or these Articles of Association

Article 68. The provision of guarantees by the Company to its shareholders, persons in actual control of the Company and their associates shall be considered and approved by the shareholders in a general meeting.

The provision of guarantee by the Company to its subsidiaries shall be subject to consideration and approval by the shareholders in a general meeting if:

- (1) the provision of any guarantee where the amount of the external guarantee by the Company and its subsidiaries reaches or exceeds 50% of the latest audited net assets;
- (2) the provision of any guarantee where the amount of the external guarantee by the Company reaches or exceeds more than 30% of the latest audited net assets;
- (3) the provision of any single guarantee in which the amount exceeds 10% of the latest audited net assets.
- (4) Provision of guarantee to any guaranteed party with an assets to liabilities ratio exceeding 70%.

The Company shall not provide guarantee to any natural person, legal person, institutions and other entities not referred to in (1) and (2) above.

Article 69.

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Annual general meetings are held once every year and within six months from the end of the preceding financial year.

The Company shall convene an extraordinary general meeting within two (2) months of the occurrence of any one of the following events:

- (1) where the number of directors is less than the number stipulated in the Company Law or two-thirds of the number specified in the Company's Articles of Association or is less than eight (8);
- (2) where the unrecovered losses of the Company amount to one-third of the total amount of its paid-up share capital;
- (3) where shareholder(s) singly or jointly holding 10 % or more of the Company's issued and outstanding voting shares request(s) in writing for the convening of an extraordinary general meeting;
- (4) whenever the board of directors deems necessary or the supervisory committee so requests;
- (5) other cases as provided in laws, administrative regulations and these Articles of Association.

More than half of the independent directors shall have the right to request the board of directors to convene the extraordinary general meeting.

- Article 70. The shareholders' general meeting will be held at a location for meeting with the presence of those who are entitled to attend. The location where the Company convenes its shareholders' general meeting will be the registered address of the Company or other places as set out in the notice convening the meeting.
- Article 71. At a shareholders' general meeting, the Company shall retain legal advisers and obtain legal advice in relation to the following issues which shall be incorporated into the shareholders' resolutions for announcement purpose:
- (1) Whether the procedures for convening and holding a general meeting comply with the requirements of the laws, administrative regulations and these Articles of Association;
  - (2) Whether attendees or the convenor of a general meeting meet the requisite legal requirements;
  - (3) Whether the voting procedures for and the voting results of the general meeting are lawful and valid; and
  - (4) Issuance of legal opinions on other relevant issues at the request of the Company.
- Article 72. The Company shall formulate rules of the shareholders' general meeting, which shall be drawn up by the board of directors and be considered as well as approved in the shareholders' general meeting.

## Section 2 Calling for Shareholders' General Meetings

- Article 73. The board of directors, Supervisory Committee and qualified shareholders as provided in these Articles of Association shall have the right to convene the shareholders' general meeting in accordance with the relevant laws, regulations and the provisions of these Articles of Association.
- The board of directors shall timely convene the shareholders' general meeting within the timeframe as provided in Article 67 of these Articles of Association.
- Article 74. Pursuant to the stipulation under the laws, administrative rules and these Articles of Association, the board of directors shall give a written feedback on whether to approve or disapprove of the convening of the extraordinary general meeting within 10 days after the receipt of the independent directors' proposal.
- If the board of directors agrees to convene the extraordinary general meeting, a notice for convening the shareholders' general meeting shall be issued within 5 days after the resolution of convening the extraordinary general meeting has been made by the board of directors; an announcement with relevant explanation shall be made if the board of directors does not agree to convene the extraordinary general meeting.

Article 75. The supervisory committee may propose to the board of directors in writing for convening the extraordinary general meeting. Pursuant to the stipulation under the laws, administrative regulations and these Articles of Association, the board of directors shall give a written feedback on whether to approve or disapprove of the convening of the extraordinary general meeting within 10 days after the receipt of the supervisory committee's proposal.

If the board of directors agrees to convene the extraordinary general meeting, a notice for convening the extraordinary general meeting shall be issued within 5 days after the decision has been made by the board of directors. Consent of the supervisory committee has to be obtained for making any alternation on the original proposed resolution in the notice.

If the board of directors does not agree to convene the extraordinary general meeting, or no feedback is given within 10 days after receiving the request, it will be deemed that the board of directors is unable to fulfill or fails to fulfill its responsibilities to convene the shareholders' general meeting. The Supervisory Committee hereby can convene and preside the meeting by itself.

Article 76. The necessary costs for convening the shareholders' general meeting by the supervisory committee shall be borne by the Company.

Article 77. Shareholders who request for of an extraordinary general meeting or a class meeting shall comply with the following procedures:

- (1) Shareholders who individually or together hold 10% or more of the shares carrying the right to vote in the meeting are entitled to propose to convene an extraordinary general meeting or a class meeting to the board of directors in writing and state the motions and resolutions proposed. Within 10 days of receiving such proposal, the board of directors shall provide its written decision as to whether it agrees to convene such general meeting in accordance with the laws, administrative regulations and the Articles of Association.
- (2) If the board of directors agrees to convene an extraordinary general meeting or a class meeting, it shall issue a notice of meeting within 5 days of its decision, and any changes to the proposal shall be made only with the consent of the proposing shareholders.
- (3) If the board of directors decides against convening the proposed extraordinary general meeting or class meeting, or if it fails to provide its written decision within 10 days of receipt of the proposal, shareholders individually or in aggregate holding 10% or more of the shares of the Company are entitled to propose to convene general meeting to the supervisory committee in writing.

- (4) If the Supervisory Committee agrees to convene the proposed extraordinary meeting or class meeting, it shall issue the notice of meeting within 5 days of receipt of the proposal, and any changes to the original proposal shall be made only with the consent of the shareholders.
- (5) If the Supervisory Committee fails to issue a notice of meeting within the prescribed period, the supervisory committee shall be deemed not to convene and chair the meeting. Shareholders individually or in aggregate holding 10% or more of the shares of the Company for 90 consecutive days may convene and chair the meeting on their own.

All reasonable expenses incurred for such meeting convened by the Supervisory Committee or shareholders as a result of the failure of the board of directors to convene a meeting as required by the above request(s) shall be borne by the Company.

Article 78. If the Supervisory Committee or the shareholders decides/decide to convene the shareholders' general meeting by itself/themselves, a written notice shall be given to the board of directors and in the meantime report shall be made to the local representative office of the competent securities authorities under the State Council and the stock exchange for record.

The convening shareholder(s) shall submit the relevant documents to the local representative office of the competent securities authorities under the State Council and the stock exchange before issuing the notice for convening of the shareholders' general meeting and the announcement on resolution proposed to the shareholders' general meeting.

Article 79. The Board and the secretary to the board of directors should accommodate to the shareholders' general meeting convened by the Supervisory Committee or the shareholders. The board of directors shall provide the list of shareholders on the record day.

### Section 3 Proposing Resolutions for and Notices of Shareholders' General Meetings

Article 80. When the Company convenes a shareholders' general meeting, the board of directors, the supervisory committee and shareholder(s) individually and jointly holding more than 3% of the Company's shares have the right to propose resolutions to the Company.

Shareholder(s) individually and jointly holding more than 3% of the Company's shares may propose special resolutions in writing to the convener 10 days before the shareholders' general meeting is convened. The convener shall issue a supplementary notice of the general meeting within two days after receiving the resolutions to announce the contents of the resolutions.

Apart from the above, no amendment to the resolutions as set out in the notice of general meeting or proposal of new resolutions shall be made after the convenor has issued the notice of general meeting.

The resolutions not set out in the notice of general meeting or failing to comply with Article 79 of these Articles of Association shall be not voted and resolved in the shareholders' general meeting.

- Article 81. The contents of the resolutions shall fall within the scope of authority of the shareholders' general meeting, with questions defined and specific issues to be resolved, and shall also comply with the laws, regulations, administrative regulations and relevant provisions of these Articles of Association.
- Article 82. At the annual shareholders' general meeting, the board of directors and the supervisory committee shall report on their work for the previous year.
- Article 83. The board of directors must explain to the shareholders in the shareholders' general meeting when a registered accountancy firm issues a qualified audit opinion in respect of the Company's financial statements.
- Article 84. The candidates for the directors and supervisors shall submit to the shareholders' general meeting for voting by way of resolutions.
- Article 85. Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, when the Company convenes a shareholders' general meeting, written notice of the meeting shall be given forty-five (45) days before the date of the meeting (when calculating the 45 days' period, the date on which the meeting is held shall not be included) to notify all of the shareholders whose names appear in the share register of the matters to be considered and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting twenty (20) days before the date of the meeting.
- Article 86. A notice of a meeting of the shareholders of the Company shall satisfy the following criterion:
- (1) Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, be in writing;
  - (2) specify the place, date and time of the meeting;

- (3) state the matters to be discussed at the meeting;
- (4) provide such information and explanation as are necessary for the shareholders to make an informed decision on the proposals put before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another, to repurchase the shares of the Company, to reorganise its share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;
- (5) contain a disclosure of the nature and extent, if any, of the material interests of any director, supervisor and senior officer in the proposed transaction and the effect which the proposed transaction will have on them in their capacity as shareholders in so far as it is different from the effect on the interests of shareholders of the same class;
- (6) contain the full text of any special resolution to be proposed at the meeting;
- (7) contain a conspicuous statement that a shareholder entitled to attend and vote at such meeting is entitled to appoint one (1) or more proxies to attend and vote at such meeting on his behalf and that a proxy need not be a shareholder;
- (8) specify the time and place for lodging proxy forms for the relevant meeting;
- (9) state the registration date of the shares of shareholders who are entitled to attend the general meeting.
- (10) State the name and telephone number of the contact person for the meeting.

In the event the opinion of independent directors is required for the issues to be discussed, such opinion and the reasons for such opinion shall be disclosed in the notice or supplementary notice of the general meeting being issued.

Article 87.

Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, notice of shareholders' general meetings shall be served on each shareholder (whether or not such shareholder is entitled to vote at the meeting), by personal delivery or prepaid airmail to the address of the shareholder as shown in the register of shareholders. For the holders of Domestic-Invested Shares, notice of the meetings may also be issued by way of public announcement.



The public announcement referred to in the preceding paragraph shall be published in one (1) or more national newspapers designated by the State Council Securities Policy Committee within the interval of forty-five (45) days to fifty (50) days before the date of the meeting; after the publication of such announcement, the holders of Domestic-Invested Shares shall be deemed to have received the notice of the relevant shareholders' general meeting.

Article 88. If matters relating to election of directors and supervisors are proposed to be discussed at a shareholders' general meeting, detailed information concerning the candidates shall be fully disclosed in the notice of the general meeting, which shall at least include the following:

- (1) Personal information relating to the candidates, including educational background, work experience and all other positions undertaken on a part-time basis;
- (2) Whether the candidates are connected with the Company, its controlling shareholders or de facto controllers;
- (3) The candidates' shareholding in the Company;
- (4) Whether the candidates have been subject to any punishment by the competent securities authorities under the State Council or other relevant department or to any sanction by any stock exchange.

Article 89. After the issue of the notice of general meeting, the shareholders' general meeting shall not be postponed or cancelled or the resolutions set out in the notice of general meeting shall not be cancelled without any proper reason. In the event that there is any delay or cancellation, the convenor shall announce the reasons for such delay or cancellation at least two business days before the date the general meeting is originally scheduled to be held.

Article 90. The Company shall, based on the written replies which it receives from the shareholders twenty (20) days before the date of the shareholders' general meeting, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting amount to more than one-half of the Company's total voting shares, the Company may hold the meeting; if not, then the Company shall, within five (5) days, notify the shareholders by way of public announcement the matters to be considered at, and the place and date for, the meeting. The Company may then hold the meeting after publication of such announcement.

#### Section 4 Qualifications of Shareholders Attending Shareholders' General Meeting

- Article 91 All shareholders or their proxies who are named in the shareholders' register on the record date shall have the right to attend the shareholders' general meeting, and exercise their voting rights in accordance with the laws, regulations and these Articles of Association.
- Article 92 An individual shareholder who attends the shareholders' general meeting in person shall produce his identification documents or other valid document or certificate which can prove his identity and his stock account card. Where a proxy is appointed to attend the meeting, the proxy shall produce his own identification documents and the proxy form.
- A legal person shareholder shall attend the meeting by its authorized representative or the attorney as appointed by such authorized representative. An authorized representative who attends the shareholders' general meeting in person shall produce his identification documents, valid certificate which can prove his identity. Where an attorney is appointed to attend the meeting, the attorney shall produce his own identification documents and the relevant power of attorney executed by such authorized representative pursuant to the laws.
- Article 93. Any shareholder who is entitled to attend and vote at a general meeting of the Company shall be entitled to appoint one (1) or more persons (whether such person is a shareholder or not) as his proxies to attend and vote on his behalf, and a proxy so appointed shall be entitled to exercise the following rights pursuant to the authorisation from that shareholder:
- (1) the shareholders' right to speak at the meeting;
  - (2) the right to demand or join in demanding a poll;
  - (3) the right to vote by hand or on a poll, but a proxy of a shareholder who has appointed more than one (1) proxy may only vote on a poll.
- Article 94. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a legal entity, either under seal or under the hand of a director or a duly authorised attorney.
- Article 95. The proxy form appointing a proxy of a shareholder shall be in writing. Such written form shall state the following:
- (1) The name of the proxy;
  - (2) Whether or not the proxy has any voting right;
  - (3) An indication to vote for or against each and every matter included in the agenda, (except the proxy of H Shareholders);

(4) The date of issue and the valid period of the proxy form;

(5) The signature (or seal) of the principal; if the principal is a legal person, supplemented with the seal of the legal person.

Article 96. The proxy form shall state clearly if the proxy is entitled to vote at his discretion in the absence of specific instruction from the principal.

Article 97. The instrument appointing a voting proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority shall be deposited at the residence of the Company or at such other place as is specified for that purpose in the notice convening the meeting, not less than twenty-four (24) hours before the time for holding the meeting at which the proxy propose to vote or the time appointed for the passing of the resolution.

If the appointor is a legal person, its legal representative or such person as is authorised by resolution of its board of directors or other governing body may attend any meeting of shareholders of the Company as a representative of the appointor.

Article 98. Any form issued to a shareholder by the directors for use by such shareholder for the appointment of a proxy to attend and vote at meetings of the Company shall be such as to enable the shareholder to freely instruct the proxy to vote in favour of or against the motions, such instructions being given in respect of each individual matter to be voted on at the meeting. Such a form shall contain a statement that, in the absence of specific instructions from the shareholder, the proxy may vote as he thinks fit.

The Company has the right to request a proxy who attends a shareholders' meeting to provide evidence of his or its identity.

If a shareholder which is a legal person appoints its legal representative to attend a meeting on its behalf, the Company has the right to request such legal representative to produce evidence of his or its identity and a notarially certified copy of the resolutions of such shareholder's board of directors in respect of the appointment of the proxy or the power of attorney executed by such other organisation which has the capacity to appoint the proxy.

Article 99. A vote given in accordance with the terms of a proxy shall be valid notwithstanding the death or loss of capacity of the appointor or revocation of the proxy or the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that the Company did not receive any written notice in respect of such matters before the commencement of the relevant meeting.

## Section 5 Convening Shareholders' General Meetings

- Article 100. The board of directors of the Company together with other convenors shall adopt necessary measures to maintain the normal order of the shareholders' general meeting. Measures shall be taken to stop any act which interferes with or causes nuisance at a general meeting and any act which infringes the lawful interests of the shareholders. Timely report of these acts shall be made to the relevant authority for investigation.
- Article 101. The Company shall prepare a log book to record the parties attending the shareholders' general meeting. The log book shall set out the name of the person or unit attending the meeting, their identification document numbers, resident address, the number of voting shares they have and the name of the principals (if the parties attending the meeting is a proxy/attorney).
- Article 102. The convenor and the legal advisers retained by the Company shall jointly verify the eligibility of the shareholders to vote based on the Company's shareholder register provided by the securities registration and clearing authority and shall register the name of the shareholders together with the numbers of voting shares they have. Registration shall come to a close before the chairman of the meeting announces the number of shareholders and proxies physically present at the meeting as well as the total number of voting shares represented by the shareholders who are entitled to vote.
- Article 103. When convening shareholders' general meeting, all directors, supervisors and senior officers should attend the meeting.
- Article 104. The chairman of the board of directors shall chair every shareholders' general meeting. If the chairman is unable to attend the meeting for any reason, the vice-chairman of the board of directors appointed by the chairman of the board of directors shall chair the meeting. If the vice-chairman of the board of directors is unable or fail to perform his duty, then a director may be nominated by more than half of all the directors to chair the meeting. If no director is nominated to chair the meeting, shareholders present shall choose one (1) person to act as the chairman of the meeting. If for any reason, the shareholders shall fail to elect a chairman, then the shareholder (including a proxy) holding the largest number of shares carrying the right to vote thereat shall be the chairman of the meeting.
- The chairman of the Supervisory Committee shall chair shareholders' general meeting being convened by the Supervisory Committee and act as the chairman of the meeting. If the chairman of the Supervisory Committee is unable to attend the meeting for any reason, the vice-chairman of the Supervisory Committee shall chair the meeting. If the vice-chairman of the Supervisory Committee is unable or fail to perform his duty, then a Supervisor may be nominated by more than half of all Supervisors to chair the meeting.

The convener of a shareholders' general meeting being convened by the shareholders shall nominate a representative to chair the meeting.

During the shareholders' general meeting is being held, in the event the chairman of the meeting violates the proceedings of the meeting such that the shareholders' general meeting is unable to proceed, the shareholders' general meeting may nominate one person which is agreed by the shareholders attending the meeting and carrying more than half of the voting rights in the shareholders' general meeting to be the chairman and proceed to transact business in the meeting.

Article 105. Except for trade secrets of the Company which cannot be disclosed at the general meeting, the board of directors, the Supervisory Committee and the senior officers should make an explanation or statement regarding the shareholders' queries and suggestions.

Article 106. The convener shall ensure that a shareholders' general meeting is held on a continuous basis until a final resolution is adopted. If a general meeting is suspended or no resolution can be adopted due to force majeure or other exceptional reasons, necessary measures shall be taken so as to promptly re-convene the general meeting or to directly terminate the then general meeting, and public announcement relating thereto shall also be made on a timely basis. At the same time, the convener shall report the same to the local office of the competent securities authorities under the State Council and to the relevant stock exchanges.

#### Section 6 Voting in and Resolutions of Shareholders' General Meeting

Article 107. Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions. An ordinary resolution must be passed by votes representing more than one-half of the voting rights represented by the shareholders (including proxies) present at the meeting.

A special resolution must be passed by votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting.

Article 108. The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:

- (1) work reports of the board of directors and the supervisory committee;

- (2) to decide on the Company's operational policies and investment plans;
- (3) profit distribution plans and loss recovery plans formulated by the board of directors;
- (4) removal of members of the board of directors and members of the supervisory committee, their remuneration and manner of payment;
- (5) annual preliminary and final budgets, balance sheets and profit and loss accounts and other financial statements of the Company;
- (6) the Company's annual report;
- (7) mutual provision of loans among the Company's overseas subsidiaries of which a resolution is required to be passed at the shareholders' general meeting;
- (8) matters other than those which are required by the laws and administrative regulations or by these Articles of Association to be adopted by special resolution.

Article 109. The following matters shall be resolved by a special resolution at a shareholders' general meeting:

- (1) the increase or reduction in share capital and the issue of shares of any class, warrants and other similar securities;
- (2) the issue of debentures of the Company;
- (3) the division, merger, dissolution and liquidation of the Company, as well as the alteration of the form of the Company;
- (4) the amendment of the Company's Articles of Association;
- (5) the repurchase of the Company's shares;
- (6) the Company's significant acquisition or disposal of material assets or provision of guarantees conducted within the period of one year with a value exceeding 30% of the latest audited total assets of the Company;
- (7) share incentive schemes;
- (8) other matters which are provided by the laws, administrative regulations or these Articles of Association, and resolved by shareholders by ordinary resolution and are considered by the shareholders to be material to the Company and are required to be passed by special resolution."

- Article 110. Unless otherwise under special emergency circumstances, and with prior approval of shareholders in the form of a special resolution obtained in a general meeting, the Company shall not enter into any contract with any person other than the directors and senior officers of the Company pursuant to which such person shall be responsible for the management and administration of the whole or any substantial part of the Company's business.
- Article 111. A shareholder (including a proxy), when voting at a shareholders' general meeting, may exercise such voting rights as are attached to the number of voting shares which he represents. Each share shall have one (1) vote.
- The Company's shares held by the Company do not carry any voting rights, and shall not be counted into the total number of shares carrying voting rights in the shareholders' general meeting.
- Article 112. When connected transactions are voted at the general meeting, the connected shareholders shall not participate in voting. The voting rights represented by the shares held by them shall not be counted in the total number of shares validly voted. The announcement on the resolutions passed by the general meeting should fully disclose the details of voting by unconnected shareholders.
- Article 113. Where any shareholder is, under the Hong Kong Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any vote cast or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.
- Article 114. The board of directors, independent directors and shareholders qualified under the relevant regulation may also collect from other shareholders of the Company the rights to vote in a shareholders' general meeting.
- Article 115. At any shareholders' general meeting, a resolution shall be decided on a show of hands unless a poll is demanded:
- (1) by the chairman of the meeting;
  - (2) by at least two (2) shareholders present in person or by proxy entitled to vote thereat;
  - (3) by one (1) or more shareholders present in person or by proxy and representing 10 % or more of all shares carrying the right to vote at the meeting,
- before or after a vote is carried out by a show of hands.

Unless a poll is demanded, a declaration by the chairman that a resolution has been passed on a show of hands and the record of such in the minutes of the meeting shall be conclusive evidence of the fact that such resolution has been passed. There is no need to provide evidence of the number or proportion of votes in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who demands the same.

- Article 116. A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.
- Article 117. On a poll taken at a meeting, a shareholder (including a proxy) entitled to two (2) or more votes need not cast all his votes in the same way.
- Article 118. Election of directors of the Company (including independent directors but not staff representatives) and Supervisors (who are not staff representatives) shall take place in the form of cumulative voting system.
- When electing directors at the shareholders' general meeting, the independent directors shall be elected separately with other members of the board of directors. Each share having voting rights held by a shareholder has the number of votes equal to the number of nominated directors. A shareholder may freely allocate his votes among the nominated directors, either to allocate to a number of persons, or to vote all his/her votes in favour of one person.
- When electing supervisors at the shareholders' general meeting, each share having voting rights held by a shareholder has the number of votes equal to the number of nominated supervisors. A shareholder may freely allocate his votes among the nominated supervisors, either to allocate to a number of persons, or to vote all his/her votes in favour of one person.
- Article 119. Except for the cumulative voting system, each of the proposed resolution shall be decided by the voting in the shareholders' general meeting in sequence. Should there be more than one resolution on the same issue, voting shall be conducted according to the chronology of the resolutions proposed. No proposed resolution should be set aside or remained undecided unless the shareholders' general meeting is terminated or resolutions cannot be made due to exceptional reasons including force majeure.
- Article 120. No amendment shall be made to the resolutions being considered by the shareholders' general meeting. Otherwise, the relevant amendments shall be treated as a new resolution and shall not be voted in the prevailing shareholders' general meeting.



- Article 121 Prior to voting, the chairman of the meeting shall announce the number of shareholders and proxies physically present at the meeting as well as the total number of voting shares represented by shareholders who are entitled to vote. The number of shareholders and proxies physically present at the meeting as well as the total number of voting shares represented by the shareholders who are entitled to vote shall be determined in accordance with those registered during the meeting.
- Article 122 When considering the resolutions being submitted for voting, shareholders attending the meeting shall deliver their opinion in respect of approval or objection to such motions or abstention from voting. (Voting by H Shareholders may not include abstention from voting.)  
Failure to or wrongly complete the ballot paper, or the ballot paper being illegible, and ballot paper not voted shall be deemed as the voter abstaining from voting. The votes represented by such shares shall be counted as “abstention”.
- Article 123. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be have a casting vote.
- Article 124 Each vote can only be exercised once either physically at a meeting, via Internet or through other permitted means. If the same vote is exercised more than once, only the first vote will be accounted for.
- Article 125 Before a resolution is decided on a motion at a shareholders’ general meeting, two representatives of the shareholders shall be nominated to participate in counting the votes as well as supervising the counting process. If a shareholder is interested in the matters under consideration, the relevant shareholders and his proxies shall not participate in counting the votes or supervising the counting process.  
At the time of deciding on a motion by voting at a general meeting, legal advisers, representatives of shareholders and representatives of supervisors shall participate in counting the votes as well as supervising the counting process. They shall announce the voting results at the meeting. The voting results in connection with the resolution shall be recorded in the minutes.  
Shareholders of the Company or their proxies who cast their votes via Internet or through other permitted means shall have the right to monitor the voting results by the corresponding voting platform.

- Article 126 A shareholders' general meeting shall not be declared closed for shareholders who attend in person at a time earlier than for those shareholders who attend via Internet or other permitted means. The chairman of the meeting shall announce at the meeting the voting details and results of each motion and shall declare whether or not a motion is adopted on the basis of relevant voting results.
- The Company, persons responsible for counting the votes, persons responsible for supervising the counting process, Internet service providers and other relevant parties shall have the obligation to keep matters related to voting confidential.
- Article 127 If the chairman of the meeting has any doubt as to the result of a resolution which has been put to vote at a shareholders' meeting, he may have the votes counted. If the chairman of the meeting has not counted the votes, any shareholder who is present in person or by proxy and who objects to the result announced by the chairman of the meeting may, immediately after the declaration of the result, demand that the votes be counted and the chairman of the meeting shall have the votes counted immediately.
- Article 128 If votes are counted at a shareholders' general meeting, the result of the count shall be recorded in the minute book.
- Article 129 The chairman of the meeting shall be responsible for determining whether a resolution has been passed. His decision, which shall be final and conclusive, shall be announced at the meeting and recorded in the minute book.
- Article 130 Resolutions of the shareholders' general meeting shall be announced timely. The announcement shall state the number of the shareholders and proxies present at the meeting, the total number of shares carrying the right to vote held by them and the percentage of such shares out of the total number of shares carrying the right to vote of the Company, the method of voting, the voting result of each motion and details of each resolutions passed in the meeting.
- When the five issues set out in paragraph 2 of Article 136 of the Articles of Association are proposed to be considered at the shareholders' general meeting of the Company, the announcement of the resolutions of the shareholders' general meeting shall set out the number of public shareholders voting, the total number of shares held by them and the proportion in the total number of shares held by them and disclose the shareholdings of the 10 largest public shareholders voting as well as the result of their votes.
- Article 131 Where a resolution of the meeting is not adopted, or a resolution passed at the previous shareholders' general meeting is changed at the current shareholders' general meeting, specific note shall be given in the announcement for the resolutions passed in the shareholders' general meeting.

Article 132 The motion for the new session of the board of directors and the Supervisory Committee being passed by the shareholders' general meeting shall commence office after the resolution being passed by the shareholders' general meeting.

In the event the election of the staff representative (hereinafter referred to as the "Staff director") in the new session of the board of directors and the staff representative (hereinafter referred to as the "Staff Supervisor") in the new session of the Supervisory Committee by the staff is earlier than the terms the new session of the board of directors and the Supervisory Committee commence, their offices will commence when the terms of the new session of the board of directors of director and the supervisory committee commence. If the election by staff is later than the terms of the new session of the board of directors and the Supervisory Committee commence, their offices will commence on the date when they are elected by the staff.

Article 133 If a motion in respect of the distribution of cash or bonus shares, or in connection with the capital increase by conversion from common reserve funds, is adopted at a shareholders' general meeting, the Company shall implement such distribution within two months of the relevant general meeting.

Article 134 Minutes of a shareholders' general meeting shall be kept and such minutes shall be prepared by the Secretary to the board of directors. Minutes of the shareholders' general meetings should set out the following:

- (1) the date and venue for convening the meeting, meeting agenda and the name of the convenor;
- (2) the name of the chairman of the meeting as well as those of the directors, supervisors and senior officers who attend the meeting as attendees and participants;
- (3) the number of shareholders and proxies attending the meeting, the total number of voting shares represented by the shareholders who are entitled to vote; the proportion of the number of voting shares represented by the shareholders who are entitled to vote out of the total number of shares of the Company;

- (4) a description of the considerations taken for each motion, the main points put forward by each speaker relating thereto and the voting results thereof;
- (5) details of queries and recommendations of the shareholders and the corresponding response or explanation in relation thereto;
- (6) the names of the legal advisers and persons responsible for counting the votes and for supervising the counting process; and
- (7) other contents which should be recorded in the minutes as provided for in these Articles of Association.

- Article 135 The convenor shall ensure that the content of the minutes shall be true, accurate and complete. Minutes shall be signed by attendees of the meeting, including the directors, supervisors, secretary to the board of directors, the convenor or its representative and the chairman of the meeting. Minutes shall, together with the register relating to the shareholders present at the meeting in person and the proxy form if present by proxy, or via Internet or other permitted means be kept by the Company for a period of not less than ten years.
- Article 136. Copies of the minutes of proceedings of any shareholders' meeting shall, during business hours of the Company, be open for inspection by any shareholder without charge. If a shareholder requests for a copy of such minutes from the Company, the Company shall send a copy of such minutes to him within seven (7) days after receipt of reasonable fees therefor.

#### Section 7 Voting platform through internet

- Article 137 The Company shall, with its priority to ensure that the shareholders' general meeting is legal and effective, enlarge the proportion of public shareholders participating in the shareholders' general meeting through various manner and means including providing modern information technological means such as voting platform through internet. Attendance shall be accepted for shareholders who attend the general meeting through the above means.
- When the five issues set out in paragraph 2 of Article 136 of the Articles of Association are proposed to be considered at the shareholders' general meeting of the Company, domestic shareholders shall be given an online voting platform in addition to live meetings.
- Online voting access for domestic shareholders shall be provided through internet service providers designated by China Securities Regulatory Commission and Shanghai Stock Exchange. The holders of Overseas Listed Foreign Invested Shares will not be provided with online voting access.

Upon completion of the voting process at the shareholders' general meeting, the Company shall consolidate, in respect of each proposal, the voting results of live meeting, online voting and other forms of voting in accordance with the relevant regulation before making any announcement.

Article 138. The Company shall establish and perfect the voting system for public shareholders in respect of significant issues.

The following issues or the relevant applications in relation to such issues proposed to the shareholders' general meeting shall be only carried out upon approval at the shareholders' general meeting and approval by the public shareholders representing more than half of the votes cast by the public shareholders present at the shareholders' general meeting:

- (1) Any issue of new shares by the Company to the public (including issue of Overseas Listed Foreign Invested Shares or other equity securities), issue of convertible debentures, placing of shares to existing shareholders (except those for which the controlling shareholders have undertaken to fully subscribe in cash before the shareholders' general meeting is convened);
- (2) Substantial assets restructuring of the Company where the total consideration for the assets proposed to be acquired is or higher than 20% of the audited net book value of such assets;
- (3) Repayment of debts owing to the Company by any shareholder by means of his/her equity interests in the Company;
- (4) Overseas listing of any subsidiaries of the Company which have a significant impact on the Company;
- (5) Other relevant issues which may have a significant impact on the interests of the public shareholders in respect of the development of the Company.

Article 139. Under circumstances as prescribed in the above article, after the Company making public announcement of the notice of shareholders' general meeting, the notice of the shareholders' general meeting shall be published once again within 3 days after the share registration day.

#### CHAPTER 9: SPECIAL PROCEDURES FOR VOTING BY A CLASS OF SHAREHOLDERS

Article 140. Those shareholders who hold different classes of shares are class shareholders.

Class shareholders shall enjoy rights and assume obligations in accordance with laws, administrative regulations and these Articles of Association.

Article 141. Rights conferred on any class of shareholders (“class rights”) may not be varied or abrogated save with the approval of a special resolution of shareholders in a general meeting and by holders of shares of that class at a separate meeting conducted in accordance with Articles 141 to 145.

Article 142. The following circumstances shall be deemed to be variation or abrogation of the rights attaching to a particular class of shares:

- (1) to increase or decrease the number of shares of that class, or to increase or decrease the number of shares of a class having voting or equity rights or privileges equal or superior to those of shares of that class;
- (2) to exchange all or part of the shares of that class for shares of another class or to exchange or to create a right to exchange all or part of the shares of another class for shares of that class;
- (3) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of that class;
- (4) to reduce or remove preferential rights attached to shares of that class to receive dividends or to the distribution of assets in the event that the Company is liquidated;
- (5) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to shares of that class;
- (6) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to shares of that class;
- (7) to create a new class of shares having voting or equity rights or privileges equal or superior to those of the shares of that class;
- (8) to restrict the transfer or ownership of shares of that class or to increase the types of restrictions attaching thereto;
- (9) to allot and issue rights to subscribe for, or to convert the existing shares into, shares in the Company of that class or another class;
- (10) to increase the rights or privileges of shares of another class;
- (11) to restructure the Company in such a way so as to result in the disproportionate distribution of obligations between the various classes of shareholders;
- (12) to vary or abrogate the provisions of this Chapter.

- Article 143. Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, have the right to vote at class meetings in respect of matters concerning sub-paragraphs (2) to (8), (11) and (12) of Article 140, but interested shareholder(s) shall not be entitled to vote at such class meetings.
- “(An) interested shareholder(s)”, as such term is used in the preceding paragraph, means:
- (1) in the case of a repurchase of shares by way of a general offer to all shareholders of the Company or by way of public dealing on a stock exchange pursuant to Article 32, a “controlling shareholder” within the meaning of Article 61;
  - (2) in the case of a repurchase of shares by an off-market agreement pursuant to Article 32, a holder of the shares to which the proposed agreement relates;
  - (3) in the case of a restructuring of the Company, a shareholder who assumes a relatively lower proportion of obligation than the obligations imposed on shareholders of that class under the proposed restructuring or who has an interest in the proposed restructuring different from the general interests of the shareholders of that class.
- Article 144. Resolutions of a class of shareholders shall be passed by votes representing more than two-thirds of the voting rights of shareholders of that class represented at the relevant meeting who, according to Article 141, are entitled to vote thereat.
- Where any shareholder is, under the Hong Kong Listing Rules, required to abstain from voting any particular resolution in a class meeting or restricted to voting only for or only against any particular resolution in a class meeting, any vote cast or on behalf of any shareholder in contravention of such requirement or restriction shall not be counted.
- Article 145. Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, written notice of a class meeting shall be given to all shareholders who are registered as holders of that class in the register of shareholders forty-five (45) days before the date of the class meeting. Such notice shall give such shareholders notice of the matters to be considered at such meeting, the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply in respect thereof to the Company twenty (20) days before the date of the class meeting.

If the shareholders who intend to attend such class meeting represent more than half of the total number of shares of that class which have the right to vote at such meeting, the Company may hold the class meeting; if not, the Company shall within five (5) days give the shareholders further notice of the matters to be considered, the date and the place of the class meeting by way of public announcement. The Company may then hold the class meeting after such public announcement has been made.

Article 146. Notice of class meetings need only be served on shareholders entitled to vote thereat.

Class meetings shall be conducted in a manner which is as similar as possible to that of shareholders' general meetings. The provisions of these Articles of Association relating to the manner for the conduct of shareholders' general meetings are also applicable to class meetings.

Article 147. Apart from the holders of other classes of shares, the holders of the Domestic-Invested Shares and holders of Overseas-Listed Foreign-Invested Shares shall be deemed to be holders of different classes of shares.

The special procedures for approval by a class of shareholders shall not apply in the following circumstances:

- (1) where the Company issues, upon the approval by special resolution of its shareholders in a general meeting, either separately or concurrently once every twelve (12) months, not more than 20% of each of its existing issued Domestic-Invested Shares and Overseas-Listed Foreign-Invested Shares; or
- (2) where the Company's plan to issue Domestic-Invested Shares and Overseas-Listed Foreign-Invested Shares at the time of its establishment is carried out within fifteen (15) months from the date of approval of the State Council's securities authorities.

## CHAPTER 10: BOARD OF DIRECTORS

### Section I Directors

Article 148 Directors who are not staff representative shall be elected or removed at the shareholders' general meeting.

The staff directors shall be elected by the staff in the staff representative meeting or by other ways democratically.

Directors shall be elected for a term of three years. At the expiry of the term, it shall be renewable upon re-election. A director may not be removed by the shareholders in a general meeting without any reason before his term of office expires.



The Chairman and Vice-chairman shall be elected and removed by more than one-half of all members of the board of directors. The term of office of the Chairman and Vice-chairman shall be three (3) years respectively, which is renewable upon re-election.

The directors shall not be required to hold qualifying shares.

If a director fails to attend the two consecutive board meetings in person or by another director appointed as his representative (an independent director shall comply with the provisions in "Section II Independent Directors"), he shall be deemed to be in default of performing his duty. The board of directors should recommend his removal to a shareholders' general meeting.

- Article 149. The tenure of a director shall commence from the date when he takes office until the end of the tenure of the existing board of directors. If an election is not conducted before the termination of the tenure of a director, the original director(s) shall continue to assume the responsibilities in accordance with the laws, administrative regulations, departmental rules and these Articles of Association before the new director(s) take office.
- Article 150. A director may submit his resignation before the expiry of his term. He should deliver a written resignation letter to the board of directors. The board of directors shall disclose such resignation within two days.
- Article 151. If a director's resignation will result in the number of directors falling below the legally prescribed minimum, his resignation shall not come into force until his vacancy is filled by another person. The original director(s) shall continue to assume the responsibilities in accordance with the laws, administrative regulations, departmental rules and these Articles of Association before the new director(s) take office.
- Apart from the above, the resignation of a director shall become effective when the written resignation letter is submitted to the board of directors
- Article 152. When a director resigns or his term of office expires, his obligation of confidentiality relating to the Company's trade secrets remains in force after the end of his office until such secrets become public information.
- Article 153. A director whose term of office has not expired shall be held responsible for the Company's loss due to his departure without permission.
- Article 154. Under normal circumstances, the board of directors will nominate candidates for directors who are not staff representative who shall be voted on at a shareholders' general meeting. The Company's shareholders and the supervisory committee may nominate candidates for directors who are not staff representative in accordance with these Articles of Association.

A shareholder's written notice of the intention to nominate a person for election as a director who are not staff representative and a notice in writing by that person indicating his acceptance of such nomination shall have been given to the Company seven (7) days before the date of such shareholders' general meeting. Such written notice(s) by the shareholder(s) of the Company shall be made no earlier than the day after the despatch of the notice of the general meeting appointed for election of directors who are not staff representative and no later than 7 days prior to the date of such meeting.

Where a person is proposed for election as a director who are not staff representative by the board of directors, a written notice of the intention to nominate a person for election as a director who are not staff representative and a notice in writing by that person indicating his acceptance of such nomination by board of directors shall have been given to the Company seven (7) days prior to the date of the board meeting appointed for determining the proposed directors who are not staff representative.

Under the premises of complying with the relevant laws and administrative regulations, the general meeting of the shareholders may remove any director who are not staff representative before his term expires by way of ordinary resolution provided that the claims that may be proposed pursuant to any contract shall not be affected therefrom.

## Section II Independent Directors

Article 155. Independent Directors are directors who do not hold any positions in the Company other than as director and do not maintain with the Company and its substantial shareholders a connection which may hamper their independent and objective judgments.

Article 156. The independent directors should possess the following basic qualifications:

- (1) having the qualifications to assume the office of a director in a listed company according to the laws, administrative rules and other relevant provisions;
- (2) being independent as specified in Article 155 of these Articles of Association;
- (3) having the basic knowledge of the operation of a listed company and being familiar with relevant laws, administrative rules and regulations;
- (4) having not less than five years' working experience in the legal or economic field or other experiences required for performing the duty of an independent director;
- (5) other qualifications specified by these Articles of Association.

- Article 157. An independent director should be independent. The following persons shall not act as independent directors:
- (1) persons working in the Company or its subsidiaries, as well as their spouses, parents, children, siblings, parents-in-law, sons or daughters-in-law, spouses of their siblings and siblings of their spouses;
  - (2) natural person shareholders who directly or indirectly hold more than 1% of the issued shares of the Company or who rank in the top ten shareholders of the Company, as well as their spouses, parents and children;
  - (3) persons who work in entities being shareholders who directly or indirectly hold more than 5% of the issued shares of the Company who rank in the top five shareholders of the Company, as well as their spouses, parents and children;
  - (4) persons who fell within the above three categories within the past year;
  - (5) persons who provide financial, legal and consulting services to the Company or its subsidiaries or persons who work in the relevant organisations;
  - (6) other people specified in these Articles of Association;
  - (7) other people specified by the China Securities Regulatory Commission.
- Article 158. The board of directors, the supervisory committee, and the shareholders who hold more than 1% issued shares individually or jointly may nominate candidates for independent directors to be elected at the shareholders' general meeting.
- More than one third of the members of the board of directors shall be independent directors, and at least one of the independent directors shall have accounting expertise.
- Article 159. The term of office of the independent directors is the same with that of the other directors of the Company. The term is renewable upon re-election after expiry, but shall not be more than six (6) years.
- Any independent director shall not be removed before the expiry of his term of office without appropriate reason. Any removal before the expiry of term shall be disclosed by the Company as a special discloseable matter.

Article 160. Apart from the powers granted to directors by the Company Law and other relevant laws, regulations and these Articles of Association, the independent directors shall have the following special powers:

- (1) Substantial connected transactions (determined in accordance with the standard promulgated from time to time by the regulatory organizations of the place where the Company's shares are listed), and engaging or ceasing to engage an accounting firm, shall be agreed by more than one-half of the independent directors before submitting to the board of directors for discussion.
- (2) The independent directors may request the board of directors to convene an extraordinary general meeting, and suggest the convening of a board meeting, and publicly collect voting rights from the shareholders before the shareholders' general meeting, which shall all be agreed by more than one-half of the independent directors.
- (3) With the consent of more than half of the members of the independent directors, the independent directors may engage external audit institutions or consultative institutions independently to provide audit and consultation for specific matters of the Company, the relevant costs of which shall be undertaken by the Company.

If the above recommendation are not accepted or the above powers can not be exercised ordinarily, the Company shall disclose the circumstances accordingly.

Article 161. Apart from exercising the above powers, the independent directors shall express their independent views to the board of directors or the shareholders' general meeting in respect of:

- (1) nomination, appointment and dismissal of directors;
- (2) appointment or dismissal of senior management personnel;
- (3) remuneration of the Company's directors and senior management personnel;
- (4) existing or new loans or other transactions involving funds which are substantial (determined in accordance with the standard promulgated from time to time by the regulator organizations of the place where the Company's shares are listed) between the Company and the Company's shareholders, persons in actual control of the Company and their affiliates, and whether the Company has taken effective measures to recover the moneys owed to it;
- (5) a plan of profit distribution in cash which has not yet been formulated by the board of directors of the Company;

- (6) actions which, in the opinion of the independent directors, may prejudice the interests of minority shareholders;
- (7) other matters specified by these Articles of Association.

The independent directors should express one of the following views on the above-mentioned issues: consent; reservation with the reasons thereof; objection with the reasons thereof; inability to express their opinions and the impediments thereto.

In case of matters requiring disclosure, the Company should make a public announcement of the independent directors' opinion. If the independent directors fail to reach a consensus in their opinions, the board of directors should disclose each independent director's respective opinion.

Article 162. Independent directors shall attend the meetings of the board of directors on time understand the production business and operation of the Company, and initiate investigation to gain information required for making decision.

Independent directors shall submit an annual report for at the annual general meeting of the Company providing explanation in respect of the performance of their duties.

Article 163. The independent directors shall perform their duties honestly and faithfully, and protect the Company's interests, especially paying attention to the protection of the legal rights of public shareholders.

The independent directors shall perform his duties independently, without being affected by major shareholders of the Company, persons in actual control or other entities or individuals which have conflicting interest with the Company, its major shareholders and persons in actual control.

Article 164. If an independent director fails to attend three consecutive board meeting in person, the board of directors shall recommend his removal to a shareholders' general meeting.

Article 165. The Company shall set up a work system for the independent directors, ensuring that they have the same right of being informed as the other directors. The Company shall promptly provide the independent directors with relevant materials and information, regularly notify them of the operation of the Company, and organise on-site visit by the independent directors if necessary.

Article 166. An independent director may tender his resignation before the expiry of his term of office. He should deliver a written resignation letter to the board of directors, which explains any circumstances that are relevant to his resignation or that he considered necessary for the shareholders and creditors to pay attention.

If an independent director's resignation results in the number of independent directors or member of the board of directors falling below the legally prescribed minimum or the minimum under these Articles of Association, before the appointment of a new independent director, the independent director shall perform his duties according to the laws, administrative regulations and requirements under this Article of Association. The board of directors shall convene a shareholders' general meeting within two months to elect a replacement. If not within two months, the independent director may not continue to perform his duties.

Article 167. Matters relating to the system of independent directors which have not been set out in this section shall be handled according to the relevant laws and regulations.

### Section III The Board of Directors

Article 168. The Company shall have a board of directors consisting of eleven (11) directors, of which is one shall be a staff representative, with one (1) chairman and one (1) vice-chairmen.

The Board may establish special committees such as Strategic Committee, Audit Committee, Nomination Committee and Remuneration Committee as it deems appropriate. The special committees are to be comprised solely of Directors. The independent directors of the Company should take up the majority of the Audit Committee, the Nomination Committee and the Remuneration Committee and be responsible for as conveners of meetings. The members of the Audit Committee should have at least one independent director who is an accounting professional.

Article 169. The board of directors is accountable to the shareholders in general meeting and exercises the following functions and powers:

- (1) to be responsible for the convening of the shareholders' general meeting and to report on its work to the shareholders in general meetings;
- (2) to implement the resolutions passed by the shareholders in general meetings;
- (3) to determine the Company's business plans and investment proposals;
- (4) to formulate the Company's annual preliminary and final financial budgets;
- (5) to formulate the Company's profit distribution proposal and loss recovery proposal;

- (6) to formulate proposals for the increase or reduction of the Company's registered capital and for the issuance of the Company's debentures;
- (7) to draw up plans for the substantial acquisition, repurchase of shares, merger, division or dissolution of the Company;
- (8) to decide on the Company's internal management structure;
- (9) to appoint or remove the Company's general manager and secretary of the board and to appoint or remove the deputy general manager(s) and other senior officers (including the financial controller(s) of the Company) based on the recommendations of the general manager, to decide on their remuneration and matters relating to awards and penalty;
- (10) to formulate the Company's basic management system;
- (11) to formulate proposals for any amendment of these Articles of Association;
- (12) to decide on matters relating to foreign investment, purchase or sale of assets, mortgage of assets, provision of guarantees, entrusted assets management and connected transactions by the Company within the scope of authority conferred by the general meeting;
- (13) to manage disclosure of the Company's information;
- (14) to recommend to the shareholders' general meeting the appointment or replacement of the Company's accounting firm;
- (15) to receive the working report by the Company's management and examine their performance;
- (16) to approve an aggregate amount of provision for impairment of assets not more than 10% of the latest audited consolidated net asset value of the Company, to clear an amount of provision for impairment of assets not more than 5% of the latest audited consolidated net asset value of the Company, and to execute in compliance with the relevant regulations on connected transaction if any provision and clearance of impairment of assets involves any connected transactions.
- (17) to exercise any other powers specified by the law, administrative regulations, departmental rules, these Articles of Association and as authorised by the shareholders' general meeting.

Except as otherwise provided in these Articles of Association, other than the board of directors' resolutions in respect of the matters specified in sub-paragraphs (6), (7) and (11) of this Article which shall be passed by the affirmative vote of more than two-thirds of all the directors, the board of directors' resolutions in respect of all other matters may be passed by the affirmative vote of a simple majority of the directors.

Article 170 The board of directors shall lay down strict procedures to inspect and decide on the approval limit for foreign investment, purchase or sale of assets, mortgage of assets, provision of guarantees, entrusted assets management and connected transactions. For major investment projects, the board of directors shall organize the relevant experts and professional officers to conduct assessment for approval of the shareholders in a general meeting.

Article 171. With the approval of over two-thirds of all directors, the board of directors may make decisions on the following matters:

(1) transactions falling within the following limit (whichever is stricter) with respect to purchase or sale of assets, external investment (including entrusted financial management and entrusted loans, etc.), provision of financial assistance, leasing of assets as lessor or lessee, restructuring of claims or debts, giving or receiving assets as a gift, entrusted or trusted asset or business management, entering of licence agreement, transferring or accepting the transfer of research and development projects:

1. the aggregated assets value (where book value and assessed value are available, whichever is higher) involved in a single transaction with amount more than 10% and below 50% of the Company's latest audited total asset value prepared in accordance with the PRC Generally Accepted Accounting Principles (GAAP); or more than 5% and less than 25% of the Company's latest published total assets value prepared in accordance with the International Financial Reporting Standards;

2. a single transaction of which the completion consideration (including liabilities and expenses) accounts for more than 10% and below 50% of the Company's latest audited net asset value prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the total market capitalization of the Company (which is calculated by the average closing price of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of a transaction);

3. the latest annual income from principal operations of the subject of a single transaction accounted for more than 10% and less than 50% of the Company's latest audited income from principal operations for the latest financial year prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the Company's latest audited income from principal operations for the latest financial year prepared in accordance with the International Financial Reporting Standards;



4. the latest annual net profit of the subject of a single transaction accounted for more than 10% and less than 50% of the Company's latest audited net profit for the latest financial year prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the Company's latest audited net profit for the latest financial year prepared in accordance with the International Financial Reporting Standards;

The above transactions which involve public offer of securities that requires the approval of the China Securities Regulatory Commission shall be subject to approval of the shareholders' general meeting;

(2) a single loan of more than 10% and less than 25% of the Company's latest audited net asset value and the debt ratio to the Company's assets remains under 80% after such financing;

the mutual provision of loans among overseas subsidiaries of the Company, where the accumulative amount of such mutual loans in 12 consecutive months account for more than 25% and less than 50% of the latest audited net asset value of the Company calculated on the basis of PRC accounting standards, provided that such mutual loans are in compliance with laws, rules and relevant regulations of the relevant place(s) of incorporation of such overseas subsidiaries;

(3) mortgages or pledges of assets the cumulative outstanding amount of which is less than 30% of the Company's most recently audited net asset value;

(4) external guarantees not within the approval limit of the shareholders' general meeting as provided in the Articles of Association;

(5) transactions involving connected transactions, which have to be conducted in accordance with the relevant regulations of competent securities authorities and the listing rules of the stock exchanges.

The transactions referred to in (1) of the first paragraph involving the provision of financial assistance and entrusted financial management, shall be calculated on accrued basis for twelve consecutive months according to the transaction categories and applicable approval limit proportion of the board of directors. When the Company conducts other transactions apart from the provision of financial assistance and entrusted financial management, applicable approval limit proportion of the board of directors regarding each transaction which is under the same category shall be calculated on the principle of accrued basis for twelve consecutive months. Transactions already approved by the Company in accordance with the principle of accrued basis shall not be included in the scope of accrual calculation.

Provision of regulatory authorities the Company is subject to within and outside the PRC that is of a stricter standard than this Article of Association shall apply accordingly.

- Article 172 The directors of the Company shall ensure that the information disclosed by the Company is true, accurate and complete.
- The directors of the Company shall sign a written confirmation of opinion in connection with the regular report of the Company.
- Article 173. The Company has established a strict internal control system over external guarantee. The whole board of directors shall cautiously handle and strictly control the risk of debt created by external guarantee. In connection with the losses resulting from an inappropriate external guarantee or an external guarantee given not in compliance with the relevant laws and regulations the directors who shall be held responsible shall bear joint and several liabilities.
- (I) Review on guarantee and decision limitation
- Before making any decision on external guarantee, the Company shall understand the creditability of the debtor and make a thorough analysis on the benefit and risk of such guarantee.
- Any external guarantee given by the Company shall be approved by two-thirds of the board of directors or by the shareholders in a general meeting. Any connected director(s), shareholder(s) or shareholders controlled by de facto controllers being interested in a guarantee shall excuse himself from voting on resolution relating to such guarantee.
- The approval limit of the Company for an external guarantee shall be executed in accordance with (13) in the first paragraph of Article 65, Article 66 and (6) in the first paragraph of Article 107.
- (II) Management in guarantee procedures
- The external guarantee of the Company shall be made in form of written contract, and at the same time the supervisory committee, the secretary to the board of directors and the financial department shall be notified.
- The external guarantee of the Company shall be arranged under risk avoidance measures such as a counter guarantee given by the guaranteed party, and the party giving the counter guarantee shall have actual ability to perform its obligation under the counter guarantee.
- (III) Disclosure on provision of guarantee
- The provision of external guarantee as approved by the Board or shareholders in general meetings should be disclosed in a preliminary report in a true, accurate, complete and timely manner. The obligation to disclose such matters should not be fulfilled by way of periodic reports.

The contents to be disclosed should include: (i) the respective resolutions passed by the Board or general meetings; (ii) the aggregate amount of external guarantee provided by the Company and its subsidiaries as at the date of disclosure; (iii) the aggregate amount of guarantees provided by the Company to its subsidiaries.

The above disclosure obligation should apply equally to the subsidiaries of the Company when providing external guarantees.

Within ten days upon the approval of the provision of external guarantee by the Company, the Company should file the relevant resolutions of the Board or the general meeting, minutes of the relevant meeting and financial statements of the guaranteed party with Shandong Provincial Securities Regulatory Bureau of the China Securities Regulatory Commission; and within ten days upon the signing of the guarantee agreement, file the relevant agreement(s) in respect of the external guarantee stamped with the Company's chop with Shandong Provincial Securities Regulatory Bureau of the China Securities Regulatory Commission .”

Article 174

The board of directors shall not, without the prior approval of shareholders in a general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of the amount or value of the consideration for the proposed disposition, and the amount or value of the consideration for any such disposition of any fixed assets of the Company that has been completed in the period of four (4) months immediately preceding the proposed disposition, exceeds 33 % of the value of the Company's fixed assets as shown in the latest balance sheet which was tabled at a shareholders' general meeting.

For the purposes of this Article, “disposition” includes an act involving the transfer of an interest in assets but does not include the usage of fixed assets for the provision of security.

The validity of a disposition by the Company shall not be affected by any breach of the first paragraph of this Article.

Article 175

The Chairman of the board of directors shall exercise the following powers:

- (1) to preside over shareholders' general meetings and to convene and preside over meetings of the board of directors;
- (2) to check on the implementation of resolutions passed by the board of directors at directors' meetings;
- (3) to sign the securities certificates issued by the Company;
- (4) to sign the important documents of the board and other documents which should be signed by the Company's legal representative;
- (5) to exercise the rights of the legal representative;

- (6) in the event of emergency situations such as the occurrence of large-scale natural disasters, to take special steps in handling the Company's business according to the laws and the Company's interest; and to report to the Company's board of directors and shareholders' general meeting afterwards;
- (7) to exercise other powers conferred by the board of directors .

Article 176 The vice chairman shall assist the chairman in his work. Where the chairman is unable to or does not perform the duty, the vice chairman shall preside the meeting. Where the vice chairman is unable to or does not perform the duty, a director nominated by more than one-half of the directors shall perform the duty.

Article 177 Meetings of the Board shall be held at least three times every year and shall be convened by the chairman of the board of directors. All of the directors and supervisors should be notified about the meeting fourteen (14) days beforehand. An extraordinary meeting of the board of directors may be held under the following circumstances:

- (1) when the Chairman thinks it is necessary;
- (2) Shareholders carrying voting rights of more than 10%;
- (3) when more than one-third directors so request;
- (4) when the supervisory committee so requests;
- (5) when the general manager so requests;
- (6) when more than a half of the independent directors so request.

Article 178 Notice of meetings and extraordinary meetings of the board of directors shall be delivered in person, by facsimile, by express delivery service, by registered mail, or by other means of electronic communication. The time limits for the delivery of such notices are: for a board meeting, at least fourteen (14) days before the meeting; and for an extraordinary meeting, at least three (3) days before the meeting.

A notice of meetings shall contain the following contents: (1) date and place of the meeting; (2) duration of the meeting; (3) business to be discussed; and (4) date of notice.

Article 179 Notice of a meeting shall be deemed to have been given to any director who attends the meeting without protesting against, before or at its commencement, any lack of notice.

Article 180 Resolution of the board of directors may be decided on a poll or show of hands.

As long as all directors can fully express their opinions, a board meeting or an extraordinary meeting of the board of directors may be held by way of facsimile, during which resolutions may be passed and signed by participating directors. All such directors shall be deemed to be present in person at the meeting. When the number of directors who have signified their consent to a resolution reaches the number set out in Article 179, a valid resolution shall be deemed to have been passed.

Article 181 Meetings of the board of directors shall be held only if more than half of the directors (including any alternate director appointed pursuant to Article 180 of the Company's Articles of Association) are present.

Each director shall have one (1) vote. A resolution of the board of directors must be passed by more than half of all of the directors of the Company.

Where there is an equality of votes cast both for and against a resolution, the Chairman of the board of directors shall have a casting vote.

When passing a resolution in relation to connected transaction at a board meeting, or where any director or any of its Associates (as defined under the Listing Rules of the Stock Exchange of Hong Kong) is connected with such resolution, such connected director shall excuse himself from the Board meeting, shall not have any voting rights in respect thereof, shall not exercise any voting right on behalf of other directors and shall not be counted as part of the quorum of the board meeting. Such board meeting can be convened where not less than half of the disinterested directors of the Company attend the meeting and any such resolutions shall be passed by at least half of the disinterested directors of the Company. If the number of disinterested directors present at is less than 3, the matter shall be presented to the shareholders for consideration at a general meeting.

Article 182 Directors shall attend the meetings of the board of directors in person. Where a director is unable to attend a meeting for any reason, he may by a written power of attorney appoint another director to attend the meeting on his behalf. The power of attorney shall set out the name of the attorney, issues under authorisation, scope of authorisation and valid period, which will be signed or sealed with the chop by the appointing director.

A Director appointed as a representative of another director to attend the meeting shall exercise the rights of a director within the scope of authority conferred by the appointing director. Where a director is unable to attend a meeting of the board of directors and has not appointed a representative to attend the meeting on his behalf, he shall be deemed to have waived his right to vote at the meeting

Article 183 The board of directors shall keep minutes of resolutions passed at meetings of the board of directors. The minutes shall be signed by the directors present at the meeting, the board's secretary and the person who recorded the minutes. The directors shall be liable for the resolutions of the board of directors. If a resolution of the board of directors violates the laws, administrative regulations or the Company's Articles of Association and the Company suffers serious losses as a result thereof, the directors who participated in the passing of such resolution are liable to compensate the Company therefor. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be released from such liability.

The minutes of the board meeting shall include the following contents: (1) date and place of the meeting and name of the convener; (2) names of participating directors and proxies; (3) agenda; (4) main points of directors' speeches; (5) voting method for each matter and its result (the voting result should specify the number of votes for and against and abstentions).

Minutes of the board meeting shall be kept as the Company's record for a period of not less than ten years.

- Article 184 The board of directors shall formulate its rules of meetings to ensure its working efficiency and scientific decision.
- The rules of meetings of the board of directors shall be drawn up by the board of director of the Company and be considered and approved at the shareholders' general meeting.

#### CHAPTER 11: SECRETARY OF THE BOARD OF DIRECTORS

- Article 185 The Company shall have one (1) secretary to the board of directors. The secretary shall be a senior officer of the Company, who is nominated by the chairman of the board of directors, appointed or removed by the board of directors and accountable to the board of directors.

- Article 186 The secretary of the Company's board of directors shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the board of directors. His primary responsibilities are as follows:

- (1) to prepare and deliver the board's and general meeting's reports and documents required by competent authorities in China;
- (2) to prepare and organise board meetings and shareholders' general meetings; to take minutes of the meetings and to keep the meetings' documents and records;

- (3) to be responsible for the Company's information disclosure and to ensure the timeliness, accuracy, legality, authenticity and completeness of the Company's disclosure;
- (4) to be responsible for the Company's management for investors relation;
- (5) to actively co-operate with the independent directors in performing their duties;
- (6) to ensure that the Company's registers of members are properly established, and that persons entitled to receive the Company's records and documents are furnished therewith without delay;
- (7) other responsibilities specified in these Articles of Association and the listing rules of the stock exchanges where the Company's shares are listed.

Article 187

A director or senior officer of the Company may also act as the secretary of the board of directors. The certified public accountancy firm which has been appointed by the Company to act as its auditors shall not act as the secretary of the board of directors.

Where the office of secretary is held concurrently by a director, and an act is required to be done by a director and a secretary separately, the person who holds the office of director and secretary may not perform the act in a dual capacity.

## CHAPTER 12: GENERAL MANAGER AND SENIOR OFFICERS ETC

Article 188

The Company shall have a general manager who shall be appointed or dismissed by the board of directors. The Company shall have six to ten deputy general managers who will assist the general manager in his work, a financial controller and a chief engineer.

The board of directors may decide to appoint a member of the board of directors to act concurrently as the senior officers. However, the number of directors and staff director who act concurrently as the senior officers shall not exceed one half of the total number of directors. Any person serving as officers (excluding directors) at the Company's controlling shareholder and de factor controller unit shall not act as the senior officer of the Company.

The senior officers shall serve for a term of three (3) years. The term is renewable upon re-election.

The tenure of a senior officer shall commence from the date when he takes office until the end of the tenure. If an appointment is not made in time upon the termination of the tenure of the senior officer, the original senior officer(s) shall assume the responsibilities in accordance with the laws, administrative regulations, departmental rules and these Articles of Association before the new senior officer(s) take office.

Article 189

The general manager shall be accountable to the board of directors and shall exercise the following functions and powers:

- (1) to be in charge of the Company's production, operation and management, to organise the implementation of the resolutions of the board of directors and report to the board of directors;
- (2) to organise the implementation of the Company's annual business plan and investment proposal;
- (3) to draft plans for the establishment of the Company's internal management structure;
- (4) to draft the Company's basic management system;
- (5) to formulate basic rules and regulations for the Company;
- (6) to propose the appointment or dismissal of the Company's senior officers;
- (7) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the board of directors;
- (8) to draw up a package of staff's salary, benefits, awards and penalty, as well as to decide the appointment and dismissal of the staff of the Company;
- (9) to request the convening of an extraordinary meeting of the board;
- (10) other powers conferred by these Articles of Association and the board of directors.

Article 190

The general manager may, by means such as through the manager's meeting of the Company, make decisions on the following operational matters:

(1) transactions falling within the following limit (whichever is stricter) with respect to purchase or sale of assets, external investment (including entrusted financial management and entrusted loans, etc.), provision of financial assistance, leasing of assets as lessor or lessee, restructuring of claims or debts, giving or receiving assets as a gift, entrusted or trusted asset or business management, entering of licence agreement, transferring or accepting the transfer of research and development projects:

1. the aggregate assets value (where book value and assessed value are available, whichever is higher) involved in a single transaction with amount below 10% of the Company's latest audited total asset value prepared in accordance with the PRC GAAP; or less than 5% of the Company's latest published total asset prepared in accordance with the International Financial Reporting Standard;



2. a single transaction of which the completion consideration (including liabilities and expenses) accounts for less than 10% of the Company's latest audited net asset value prepared in accordance with the PRC GAAP; or less than 5% of the total market capitalization of the Company (which is calculated by the average closing price of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the transaction);
3. the latest annual income from principal operations of the subject of a single transaction accounts for less than 10% of the Company's latest audited income from principal operations for the latest financial year prepared in accordance with the PRC GAAP; or less than 5% of the Company's latest audited income from principal operations for the latest financial year prepared in accordance with the International Financial Reporting Standards;
4. the latest annual net profit of the subject of a single transaction accounted for less than 10% of the Company's latest audited net profit for the latest financial year prepared in accordance with the PRC GAAP; or less than 5% of the Company's latest audited net profit for the latest financial year prepared in accordance with the International Financial Reporting Standards.

The transactions referred to in (1) of the first paragraph involving the provision of financial assistance and entrusted financial management, shall be calculated on accrued basis for twelve consecutive months according to the transaction categories and applicable approval limit proportion of the board of directors. When the Company conducts other transactions apart from the provision of financial assistance and entrusted financial management, applicable approval limit proportion of the board of directors regarding each transaction which is under the same category shall be calculated on the principle of accrued basis for twelve consecutive months. Transactions already approved by the Company in accordance with the principle of accrued basis shall not be included in the scope of accrual calculation.

The above transactions which involve public offer of securities that requires the approval of the China Securities Regulatory Commission shall be subject to approval of the shareholders' general meeting of shareholders.

- (2) a single loan of less than 10% of the Company's latest audited net asset value and the debt ratio to the Company's assets ratio of the Company remains under 50% after such financing;

the mutual provision of loans among overseas subsidiaries of the Company, where the accumulative amount of such mutual loans in 12 consecutive account for not more than 25% of the latest audited net asset value of the Company calculated on the basis of PRC accounting standards, provided that such mutual loans are in compliance with laws, rules and relevant regulations of the relevant place(s) of incorporation of such overseas subsidiaries;

- (3) security or pledges of assets, a single amount of which is less than 5%, and a cumulative amount of which is less than 20% , of the Company's latest audited net asset value.

Where decisions on operational matters involve connected transactions, such decisions shall be implemented in accordance with the relevant requirements of connected transactions.

Provision of regulatory authorities the Company is subject to within and outside the PRC that is of a stricter standard than this Article will be applicable accordingly.

- Article 191 The general manager shall attend meetings of the board of directors. The general manager, who is not a director, does not have any voting rights at board meetings.
- Article 192 The general manager shall, upon requests of the board of directors or supervisory committee, report to the board of directors or the supervisory committee on the signing and implementation of the Company's material contracts, usage of capital and profit and loss. The general manager shall ensure authenticity of the reports.
- Article 193 Before drawing up a package concerning staff's immediate interests, such as staff's salary, benefits, safe production and labour, labour insurance, and dismissal of staff, the general manager should consult the trade union and the meeting of staff representatives.
- Article 194 The general manager shall formulate working rules of general manager and submit them to the board of directors for approval.
- Article 195 The general manager's working rules shall include the following: (1) conditions and procedures of convening a general manager's meeting, as well as the participants; (2) specific duties and division of labour among the senior officers; (3) the Company's usage of funds and assets, limits on signing of material contracts and reporting system to the board of directors and supervisory committee; and (4) other matters which the board considers necessary.
- Article 196 The general manager and deputy general managers, in performing their functions and powers, shall act honestly and diligently and in accordance with laws, administrative regulations and these Articles of Association.

- Article 197 The senior officers of the Company shall ensure that the information disclosed by the Company is true, accurate and complete.  
The senior officers of the Company shall sign a written confirmation of opinion in connection with the regular report of the Company.
- Article 198 The fiduciary duties concerning the directors in Article 215 and the duties of diligence in Article 216 (4) - (6) are also applicable to the senior officers.
- Article 199 A senior officer may submit his resignation before the expiry of his term. The specific procedures and measures for resignation by the senior officers shall be governed by the labour contract being entered into by the senior officer and the Company.

#### CHAPTER 13: SUPERVISORY COMMITTEE

- Article 200 The Company shall have a supervisory committee.  
Each supervisor shall serve for a term of three (3) years, which term is renewable upon re-election and re-appointment.
- Article 201 The supervisory committee shall have one chairman and one vice chairman.  
The election or removal of the chairman and vice chairman of the supervisory committee shall be determined by two-thirds or more of the members of the supervisory committee.  
The chairman and vice chairman shall serve for a term of three (3) years, which term is renewable upon re-election and re-appointment.
- Article 202 The tenure of a supervisor shall commence from the date when he takes office until the end of the tenure. If an appointment is not made in time upon the termination of the tenure of the senior officer so that a quorum of the supervisory committee is not met, the original senior officer(s) shall assume the responsibilities in accordance with the laws, administrative regulations, departmental rules and these Articles of Association before the new senior officer(s) take office.
- Article 203 The supervisors of the Company shall ensure that the information disclosed by the Company is true, accurate and complete.
- Article 204 The Supervisory Committee is to be comprised of six members. Members of the Supervisory Committee should be comprised of shareholder representative supervisors and an appropriate proportion of employee representative supervisors. The number of employee representative supervisors should not be less than one-third of the total number of the members of the Supervisory Committee. Shareholders representative supervisors are elected and removed by general meetings and employee representative supervisors are elected and removed by democratic elections of the employees.”

- Article 205 Under normal circumstances, the Company's supervisory committee shall submit a list of candidates for supervisors (except for staff candidates for supervisors) to the shareholders' general meeting. The Company's shareholders and board of directors may nominate the candidates for supervisors according to these Articles of Association.
- Article 206 The directors and senior managers shall not act concurrently as supervisors.
- Article 207 Meetings of the supervisory committee shall be held at least once every six months, and shall be convened by the chairman of the supervisory committee. The supervisors may propose to convene the extraordinary meeting of the supervisory committee.
- Where the chairman of the supervisory committee is unable to or does not perform the duty, the vice chairman of the supervisory committee shall preside the meeting. Where the vice chairman of the supervisory committee is unable to or does not perform the duty, a supervisor nominated by more than one-half of the supervisors shall perform the duty.
- If a supervisor fails to attend two consecutive meetings of supervisory committee, he shall be deemed to have failed to discharge his duties. The shareholders' general meeting or staff representatives' meeting shall replace him.
- Article 208 The supervisory committee shall be accountable to the shareholders in a general meeting and shall exercise the following functions and powers in accordance with law:
- (1) to review the regular reports of the Company prepared by the board of directors and give its opinion of review;
  - (2) to inspect the Company's financial position;
  - (3) to supervise the directors and senior officers and to propose removal of a director or a senior officer who has contravened any law, administrative regulation, these Articles of Association or resolutions passed at a shareholders' general meeting;
  - (4) to demand any director or senior officer who acts in a manner which is harmful to the Company's interest to rectify such behaviour;
  - (5) to check the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the board of directors to the shareholders' general meetings and to authorise, in the Company's name, publicly certified and practising accountants to assist in the re-examination of such information should any doubt arise in respect thereof;

- (6) to propose to convene a shareholders' extraordinary general meeting and an extraordinary board meeting. Where the board of directors fails to convene or hold the general meeting of shareholders in accordance with the provisions of the Company Law, to convene and hold the shareholders' general meeting;
- (7) to propose resolutions to the shareholders' general meeting;
- (8) to initiate proceedings against the directors and senior officers in accordance with the relevant provisions of the Company Law;
- (9) to conduct investigation into any identified irregularities in the Company's operations;
- (10) other functions and powers specified in these Articles of Association.

Supervisors shall attend meetings of the board of directors, and make queries or recommendations to the matters resolved by the board of directors.

Article 209

Notices of meetings and extraordinary meetings of the supervisory committee shall be delivered in person, by facsimile, by express delivery service, by registered mail or by other means of electronic communication. The time limits for the delivery of such notices are: for a supervisory meeting, at least five (5) days before the meeting; and for an extraordinary supervisory meeting, at least two (2) days before the meeting.

Resolutions of the supervisory committee shall be passed by the affirmative vote of more than two-thirds of all of its members. Resolutions may be passed by a show of hands or by poll.

Notice of meetings shall contain the following contents: date and place of meeting; duration of meeting; business to be discussed; and date of notice.

Minutes shall be taken of the meetings of the supervisory committee. The participating supervisors and the person who records the minutes should sign the minutes. The supervisors shall have the right to request the record of his speech in the meeting for a particular illustrative description. The minutes of the meetings of the supervisory committee shall be kept as the Company's record for at least ten years.

Article 210

All reasonable fees incurred in respect of the employment of professionals (such as, lawyers, certified public accountants or practising auditors) which are required by the supervisory committee in the exercise of its functions and powers shall be borne by the Company.

Article 211 The supervisory committee shall formulate its rules of meetings to ensure its working efficiency and scientific decision.

The rules of meetings of the supervisory committee shall be drawn up by the supervising committee of the Company and be considered and approved at the shareholders' general meeting.

CHAPTER 14: THE QUALIFICATIONS AND DUTIES  
OF THE DIRECTORS, SUPERVISORS AND SENIOR OFFICERS OF  
THE COMPANY

Article 212 A person may not serve as a director, supervisor or senior officer of the Company if any of the following circumstances apply:

- (1) a person who does not have or who has limited capacity for civil conduct;
- (2) a person who has been sentenced for corruption, bribery, infringement of property or misappropriation of property or other crimes which destroy the social economic order, where less than a term of five (5) years has lapsed since the sentence was served, or a person who has been deprived of his political rights and not more than five (5) years have lapsed since the sentence was served;
- (3) a person who is a former director, factory manager or manager of a company or enterprise which has been dissolved or put into liquidation as a result of mismanagement and who was personally liable for the winding up of such company or enterprise, where less than three (3) years have elapsed since the date of completion of the insolvent liquidation of the company or enterprise;
- (4) a person who is a former legal representative of a company or enterprise the business licence of which was revoked due to violation of law and who are personally liable therefor, where less than three (3) years have elapsed since the date of the revocation of the business licence;
- (5) a person who has a relatively large amount of debts which have become overdue;
- (6) a person who is currently under investigation by judicial organs for violation of criminal law;
- (7) a person who, according to laws and administrative regulations, cannot act as a leader of an enterprise;

- (8) a person other than a natural person;
- (9) a person who has been convicted by the competent authority for violation of relevant securities regulations and such conviction involves a finding that such person has acted fraudulently or dishonestly, where not more than five (5) years have lapsed from the date of such conviction;
- (10) a person who has been restricted to enter the market by the China Securities Regulatory Commission and such restriction has not been lifted.
- (11) a person who has been declared by a Stock Exchange in less than 2 years as an unsuitable candidate.

Article 213 The validity of an act carried out by a director and senior officer of the Company on its behalf shall, as against a bona fide third party, shall not be affected by any irregularity in his office, election or any defect in his qualification.

Article 214 In addition to the obligations imposed by laws, administrative regulations or the listing rules of the stock exchange on which shares of the Company are listed, each of the Company's directors and senior officers owes a duty to each shareholder, in the exercise of the functions and powers of the Company entrusted to him:

- (1) to act honestly and in the best interests of the Company;
- (2) not to expropriate the Company's property in any way, including (without limitation) usurpation of opportunities which benefit the Company;
- (3) not to expropriate the individual rights of shareholders, including (without limitation) rights to distribution and voting rights, save and except pursuant to a restructuring of the Company which has been submitted to the shareholders for approval in accordance with these Articles of Association.

Article 215 Each of the Company's directors, and senior officers owes a duty, in the exercise of his powers and in the discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Article 216 Each of the Company's directors, supervisors and senior officers shall exercise his powers or perform his duties in accordance with the fiduciary principle; and shall not put himself in a position where his duty and his interest may conflict. This principle includes (without limitation) discharging the following obligations:

- (1) to act honestly in the best interests of the Company;

- (2) to act within the scope of his powers and not to exceed such powers;
- (3) to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders given in a general meeting, not to delegate the exercise of his discretion;
- (4) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (5) unless otherwise provided for in these Articles of Association or except with the informed consent of the shareholders given in a general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (6) not to use the Company's property for his own benefit, without the informed consent of the shareholders given in a general meeting;
- (7) not to exploit his position to accept bribes or other illegal income or expropriate the Company's property in any way, including (without limitation) opportunities which benefit the Company;
- (8) not to accept commissions in connection with the Company's transactions, without the informed consent of the shareholders given in a general meeting;
- (9) to comply with these Articles of Association, to perform his official duties faithfully, to protect the Company's interests and not to exploit his position and power in the Company to advance his own interests;



- (10) not to release any confidential information which he has obtained during his term of office, without the informed consent of the shareholders in a general meeting; nor shall he use such information otherwise than for the Company's benefit, save that disclosure of such information to the court or other governmental authorities is permitted if:
- (i) disclosure is made under compulsion of law;
  - (ii) public interests so warrants;
  - (iii) the interests of the relevant director, supervisor, general manager, deputy general manager or other senior officer so requires.

Article 217 The fiduciary duties to be discharged by directors in complying with the laws, administrative regulations and these Articles are as follows:

- (1) not to misappropriate the Company's funds;
- (2) not to use the Company's assets or funds to set up deposit accounts in his own name or in the any other name;
- (3) not to violate the provisions of these Articles and lend the Company's funds or to use the Company's assets to guarantee the debts of others with the approval of the shareholders' general meeting or the board of directors;
- (4) not to abuse his positions to obtain business opportunities for himself or others which should belong to the Company, to engage in same business of the Company by himself or for others;
- (5) not to hamper the Company's interests through its connected relationships;
- (6) to perform other fiduciary duties as required by the laws, administrative regulations, departmental rules and these Articles of Association.

The income derived by the directors in violating this Article shall belong to the Company. Any loss incurred by the Company as a result of violating this Article shall be indemnified by the directors.

Article 218 The duties of diligence to be discharged by directors in complying with the laws, administrative regulations and these Articles of Association are as follows:

- (1) to exercise the rights conferred upon them in a prudent, serious and diligent manner so as to ensure that the commercial activities carried out by the Company are in compliance with the laws and administrative regulations, as well as the requirements of various economic policies of the State and falls within the scope of business provided for in the business license;
- (2) to treat all shareholders equally;

- (3) to keep informed of the business operation and management of the Company in a timely manner;
- (4) to sign a written confirmation or opinion in connection with the regular reports of the Company and to ensure that the information disclosed by the Company is true, accurate and complete;
- (5) to inform the supervisory committee of the relevant circumstances and information that is in accordance with the facts, and shall not impede the supervisory committee or a supervisor from exercising their powers;
- (6) to perform other fiduciary duties as required by the laws, administrative regulations, departmental rules and these Articles of Association.

Article 219

Each director, supervisor and senior officers of the Company shall not direct the following persons or institutions (“associates”) to do which he is prohibited from so doing:

- (1) the spouse or minor child of the director, supervisor or senior officer;
- (2) the trustee of the director, supervisor or senior officer or of any person described in sub-paragraph (1) above;
- (3) the partner of that director, supervisor or senior officer or any person referred to in sub-paragraphs (1) and (2) of this Article;
- (4) a company in which that director, supervisor or senior officer, whether alone or jointly with one (1) or more of the persons referred to in sub-paragraphs (1), (2) and (3) of this Article and other directors, supervisors, general manager, deputy general managers and other senior officers, has de facto controlling interest;
- (5) the directors, supervisors and senior officers of a company which is being controlled in the manner set out in sub-paragraph (4) above.

- Article 220 Directors, supervisors and senior management of the Company shall have legal responsibilities and obligations with regard to the safe-keeping of the funds of the Company.
- The Company shall not provide, directly or indirectly, funds to the controlling shareholder of the Company and its related parties in the following manner:
1. To lend funds of the Company to the controlling shareholder and its related parties, irrespective of whether it is interest-free;
  2. To provide entrusted loan to related parties through banks or other financial institutions;
  3. To entrust the controlling shareholder of the Company and its related parties with investments;
  4. To issue commercial bill of exchange not substantiated by actual transactions for the controlling shareholder of the Company and its related parties;
  5. To repay debts for the controlling shareholder of the Company and its related companies; and
  6. In other manners prescribed by the China Securities Regulatory Commission.
- Article 221 Shall directors, senior management of the Company assist, connive the controlling shareholder of the Company and its related parties to appropriate assets of the Company, the Board shall, subject to the seriousness of such events, take internal disciplinary actions, serve monetary punishments, pursue legal responsibilities against directly responsible persons; In case of serious events, the materially responsible senior management shall be removed from office, and such materially responsible director shall be proposed to the shareholders' general meeting to be removed from office.
- Shall there be events in which the controlling shareholder of the Company and its related parties have appropriated funds of the Company or its subsidiaries for non-operational purposes which impose adverse impacts on the Company, the Company shall, with reference to the preceding paragraph and subject to the seriousness of such events, impose punishments on such directly responsible person(s).
- Article 222 The fiduciary duties and duties of diligence of the directors, supervisors and senior officers may not necessarily be discharged by the resignation of the directors, supervisors, and senior officers of the Company becoming effective or expiry of the term with the procedures for handover having been duly completed. The duty of confidentiality in respect of trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as the principle of fairness may require depending on the amount of time which has lapsed between the termination and the act concerned and the circumstances and the terms under which the relationship between the relevant director, supervisor, general manager, deputy general manager and the senior officer on the one hand and the Company on the other hand was terminated.

- Article 223 Subject to Article 50, a director, supervisor or senior officer of the Company may be relieved of liability for specific breaches of his duty with the informed consent of the shareholders given at a general meeting, except in the circumstances as provided under Article 60.
- Article 224 Where a director, supervisor or senior officer of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (other than his contract of service with the Company), he shall declare the nature and extent of his interests to the board of directors at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefor is otherwise subject to the approval of the board of directors.
- Unless the interested director, supervisor or senior officer discloses his interests in accordance with the preceding sub-paragraph of this Article and the contract, transaction or arrangement is approved by the board of directors at a meeting in which the interested director, supervisor or senior officer is not counted as part of the quorum and refrains from voting, a contract, transaction or arrangement in which that director, supervisor, or senior officer is materially interested is voidable at the instance of the Company except as against a bona fide party thereto who does not have notice of the breach of duty by the interested director, supervisor or senior officer.
- For the purposes of this Article, a director, supervisor or senior officer of the Company is deemed to be interested in a contract, transaction or arrangement in which his associate is interested.
- Article 225 Where a director, supervisor or senior officer of the Company gives to the board of directors a notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements which may subsequently be made by the Company, that notice shall be deemed for the purposes of the preceding Article to be a sufficient declaration of his interests, so far as the content stated in such notice is concerned, provided that such notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by the Company.
- Article 226 The Company shall not pay taxes for or on behalf of a director, supervisor or other officer in any manner.
- Article 227 The Company shall not directly or indirectly make a loan to or provide any guarantee in connection with the making of a loan to a director, supervisor or senior officer of the Company or of the Company's holding company or any of their respective associates.

The foregoing prohibition shall not apply to the following circumstances:

- (1) the provision by the Company of a loan or a guarantee in connection with the making of a loan to its subsidiary;
- (2) the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds available to any of its directors supervisor and senior officers to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in a general meeting;
- (3) if the ordinary course of business of the Company includes the lending of money or the giving of guarantees, the Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant directors, supervisor and senior officers or their respective associates in the ordinary course of its business on normal commercial terms.

Article 228 Any person who receives funds from a loan which has been made by the Company acting in breach of the preceding Article shall, irrespective of the terms of the loan, forthwith repay such funds.

Article 229 A guarantee for the repayment of a loan which has been provided by the Company acting in breach of Article 223(1) shall not be enforceable against the Company, save in respect of the following circumstances:

- (1) the guarantee was provided in connection with a loan which was made to an associate of any of the directors, supervisor and senior officers of the Company or of the Company's holding company and the lender of such funds did not know of the relevant circumstances at the time of the making of the loan; or
- (2) the collateral which has been provided by the Company has already been lawfully disposed of by the lender to a bona fide purchaser.

Article 230 For the purposes of the foregoing provisions of this Chapter, a "guarantee" includes an undertaking or property provided to secure the obligor's performance of his obligations.

Article 231 In addition to any rights and remedies provided by the laws and administrative regulations, where a director, supervisor or senior officer of the Company breaches the duties which he owes to the Company, the Company has a right:

- (1) to demand such director, supervisor or senior officer to compensate it for losses sustained by the Company as a result of such breach;

- (2) to rescind any contract or transaction which has been entered into between the Company and such director, supervisor or senior officer or between the Company and a third party (where such third party knows or should have known that such director, supervisor or senior officer representing the Company has breached his duties owed to the Company);
- (3) to demand such director, supervisor or senior officer to account for profits made as result of the breach of his duties;
- (4) to recover any monies which should have been received by the Company and which were received by such director, supervisor or senior officer instead, including (without limitation) commissions; and
- (5) to demand repayment of interest earned or which may have been earned by such director, supervisor or senior officer on monies that should have been paid to the Company.

Article 232

The Company shall, with the prior approval of shareholders in a general meeting, enter into a contract in writing with a director or supervisor wherein his emoluments are stipulated. The aforesaid emoluments include:

- (1) emoluments in respect of his service as director, supervisor or senior officer of the Company;
- (2) emoluments in respect of his service as director, supervisor or senior officer of any subsidiary of the Company;
- (3) emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries;
- (4) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

No proceedings may be brought by a director or supervisor against the Company for anything due to him in respect of the matters mentioned in this Article except pursuant to the contract mentioned above.

Article 233

The contract concerning the emoluments between the Company and its directors or supervisors should provide that in the event that the Company is acquired, the Company's directors and supervisors shall, subject to the prior approval of shareholders in a general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. For the purposes of this paragraph, the acquisition of the Company includes any of the following:

- (1) an offer made by any person to the general body of shareholders;
- (2) an offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning of Article 61.

If the relevant director or supervisor does not comply with this Article, any sum so received by him shall belong to those persons who have sold their shares as a result of such offer. The expenses incurred in distributing such sum on a pro rata basis amongst such persons shall be borne by the relevant director or supervisor and shall not be paid out of such sum.

Article 234 Without lawful authorization of these Articles or the board of directors, a director of the Company may not act personally on behalf of the Company or the board of directors. If he acts personally, he shall declare his own position and identity in advance where the acting would cause a third party to believe reasonably that he is acting on behalf of the Company or the board of directors.

Article 235 Any loss incurred by the Company as a result of the violation of laws, administrative regulations, departmental rules and these Articles of Association by the directors, supervisors and senior officers in performing the Company's duties shall be indemnified by the directors, supervisors and senior officers.

#### CHAPTER 15: FINANCIAL AND ACCOUNTING SYSTEMS, PROFIT DISTRIBUTION AND INTERNAL AUDIT

Article 236 The Company shall establish its financial and accounting systems in accordance with laws, administrative regulations and PRC accounting standards formulated by the finance regulatory department of the State Council.

Article 237 At the end of each fiscal year, the Company shall prepare a financial report which shall be examined and verified in a manner prescribed by law.

Article 238 Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, the board of directors of the Company shall place before the shareholders at every annual general meeting such financial reports which the relevant laws, administrative regulations and directives promulgated by competent regional and central governmental authorities require the Company to prepare.

- Article 239 The Company's financial reports shall be made available for shareholders' inspection at the Company twenty (20) days before the date of every shareholders' annual general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports referred to in this Chapter.
- Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, the Company shall deliver or send to each shareholder of Overseas-Listed Foreign-Invested Shares by prepaid mail at the address registered in the register of shareholders the said reports not later than twenty-one (21) days before the date of every annual general meeting of the shareholders.
- Article 240 The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or that of the place outside the PRC where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in the financial statements. In distributing its after-tax profits, the lower of the two amounts shown in the financial statements shall be adopted.
- Article 241 The Company shall publish or disclose and prepare its half year status or financial report according to the Chinese, as well as the overseas, accountancy and legal principles.
- Article 242 The Company shall submit its annual financial reports, interim financial report and quarterly financial report to the competent securities authorities under the State Council and relevant stock exchange within four months after the expiration of each fiscal year, within two months after the expiration of the first six months of each fiscal year and within one month after the expiration of the first three (3) months and the first nine (9) months of each fiscal year, respectively.
- The above financial reports shall be prepared and announced in accordance with the provisions of the law, administrative regulations and departmental rules.
- Article 243 The Company shall not keep accounts other than those required by law. No assets of the Company shall be used to set up deposit accounts in any other name.
- Article 244 In the distribution of after-tax profits of a financial year, 10% of the profits shall be allocated to the statutory common reserve. No further allocation to the statutory common reserve is required where such reserve exceeds 50% of the registered capital of the Company.



Where the statutory common reserve is insufficient to make up losses of the previous financial year, the profits of a financial year shall be applied to make up such losses before allocation to the statutory common reserve shall be made in accordance with the above provision.

Upon the approval of the shareholders in general meeting, where the Company has made allocation to the statutory common reserve from the profits after tax, the Company may make allocation to the discretionary common reserve.

Any surplus of profits after the Company has made up losses and made allocations to the statutory common reserve may be distributed as dividends to shareholders in proportion to their shareholdings.

Where the Company or the board of directors, in breach of the above provisions, distribute dividends to shareholders before the Company has made up losses and made allocations to the statutory common reserve, such dividends distributed in breach of the above provisions shall be returned to the Company.

No profits shall be distributed in respect of the shares held by the Company.

Article 245 Capital common reserve fund includes the following items:

- (1) premium on shares issued at a premium price;
- (2) any other income designated for the capital common reserve fund by the regulations of the finance regulatory department of the State Council.

Article 246 The common reserve fund of the Company shall be applied for the following purposes:

- (1) to compensate losses;
- (2) to expand the Company's production and operation;
- (3) to convert the common reserve fund into share capital in order to increase its capital. The Company may convert its common reserve fund into share capital with the approval of shareholders in a general meeting. When such conversion takes place, the Company shall either distribute new shares in proportion to the existing shareholders' number of shares, or increase the par value of each share, provided, however, that when the statutory common reserve fund is converted to share capital, the balance of the statutory common reserve fund may not fall below 25 % of the registered capital before the conversion.

Capital reserve fund shall not be used to make up losses of the Company.

Article 247 The Company's profit distribution policy shall remain consistent and stable, whilst the Company's long-term interests, the overall interests of all shareholders, and the sustainable development of the Company shall also be considered.

Article 248 The profit distribution policies of the Company

1. Form and interval of profit distribution

The Company may distribute dividends in cash, in shares or in a combination of both cash and shares.

In the event that conditions for distribution of cash dividend are met, cash dividend shall be distributed prior to share dividend.

Final dividends shall be paid once a year. The shareholders shall by way of an ordinary resolution authorise the board of directors to declare and pay final dividends of the Company. The Company may distribute interim cash dividends upon obtaining approval from the board of directors and the shareholders at the general meeting. There should at least be a 6-month accounting period interval when the Company distributes cash dividends.

2. Conditions for distributing cash dividends and proportion of cash dividends

On the premise of securing the Company's sustainable development and provided that the Company has recorded a profit in a particular year and that its accumulated undistributed profit is positive, the Company's cash dividends shall account for approximately 35% of the Company's net profit after statutory reserve for that particular year, unless the Company has scheduled significant investments or significant cash requirements.

Significant investments or significant cash requirements mean investments or cash requirements scheduled for the next 12 months that are equivalent to or exceed 50% of the total profit of the Company realized in the most recent financial year.

3. Conditions for distributing share dividends

On the premises that the Company's operation is in good condition and that the Board considers the distribution of share dividends is beneficial to the overall interest of all shareholders of the Company due to a mismatch between the Company's stock price and its scale of share capital and in other necessary circumstances, the Company may distribute dividends in the form of shares.

Article 249 Procedures on approving the profit distribution plan

The Board is responsible for preparing the profit distribution plan. In the process of determining the profit distribution plan, the Board shall discuss with the independent directors and the supervisory committee adequately; the Board should also adopt different approaches to listen to the opinions of public shareholders, and examine the rationality of such plan. The main procedures on approving the profit distribution plan are as follows:

- (1) approved by more than half of the independent directors;
- (2) considered and approved by more than half of all directors;
- (3) considered and approved by more than half of all supervisors;
- (4) considered and approved at the shareholders' general meeting by way of an ordinary resolution. During the general meeting when discussing and considering the matters relating to profit distributing, various methods such as internet voting, and establishing an investors communication forum on the Company's website can be used to give public shareholders the opportunity to express their opinions and enquiries.

Article 250 Adjustment to profit distribution policy

When the Company's external operation environment experiences significant changes and thus significantly affect the Company's production operations, or when the Company experiences relatively major changes in its operations such that the implementation of the current profit distributing policy may severely affect the sustainable development of the Company, the Company can make adjustments to the profit distributing policy in that particular year in accordance with the procedures as follow:

- (1) the Board shall be responsible for preparing a written report setting out the reasons for the adjustments to be made to the profit distribution policy for that particular year;
- (2) independent directors shall give their independent opinion thereon, and adjustments must be approved by more than half of the independent directors;
- (3) considered and approved by not less than two-thirds of all directors;
- (4) considered and approved by not less than two-thirds of all supervisors;
- (5) considered and approved at the shareholders' general meeting by way of a special resolution. The Company should provide internet voting for the convenience of public shareholders.

Article 251

If the conditions for distributing cash dividends are satisfied, but such cash distribution has not been made due to the special circumstances as set out in Article 248, the Company should disclose in periodic reports matters such as the reason for not distributing cash dividends, the exact use of the funds retained by the Company as well as the expected proceeds from the investment. Independent directors should give their independent opinion thereon.

- Article 252 The Company shall calculate, declare and pay dividends and other amounts which are payable to holders of Domestic-Invested Shares in Renminbi. The Company shall calculate and declare dividends and other payments which are payable to holders of Overseas-Listed Foreign-Invested Shares in Renminbi, and shall pay such amounts in the local currency of the place in which such Overseas-Listed Foreign-Invested Shares are listed (if such shares are listed in more than one place, then the currency of the principal place on which such shares are listed as determined by the board of directors).
- Article 253 The Company shall pay dividends and other amounts to holders of Foreign-Invested Shares in accordance with the relevant foreign exchange control regulations of the State. If there is no applicable regulation, the applicable exchange rate shall be the average exchange reference rate of Renminbi to the relevant foreign currency announced by the Bank of China during five (5) working days prior to the announcement of payment of dividend and other amounts.
- Article 254 The Company shall appoint receiving agents for holders of the Overseas-Listed Foreign-Invested Shares. Such receiving agents shall receive dividends which have been declared by the Company and all other amounts which the Company should pay to holders of Overseas-Listed Foreign-Invested Shares on such shareholders' behalf.
- The receiving agents appointed by the Company shall meet the relevant requirements of the laws of the place at which the stock exchange on which the Company's shares are listed or the relevant regulations of such stock exchange.
- The receiving agents appointed for holders of Overseas-Listed Foreign-Invested Shares listed in Hong Kong shall each be a company registered as a trust company under the Trustee Ordinance of Hong Kong.
- Article 255 In case of any use of the Company's capital not in compliance with the relevant laws and regulations by any shareholder, the cash dividends to be distributed to such shareholder shall be deducted by the Company in compensation for the shareholder's use of the Company's capital.
- Article 256 The Company implements an internal audit system. Special audit personnel will conduct internal audit supervision on the Company's income and expenditure and economic activities.

Article 257 The internal audit system and the duties of the audit personnel shall take effect upon approval by the board of directors. The person in charge of the audit shall be accountable and report to the board of directors.

#### CHAPTER 16: APPOINTMENT OF AUDITORS

Article 258 The Company shall appoint an independent firm of accountants which is qualified under the relevant regulations of the State with relevant qualifications in securities affairs to audit the Company's annual report and review the Company's other financial reports.

The first auditors of the Company may be appointed before the first annual general meeting of the Company at the inaugural meeting. Auditors so appointed shall hold office until the conclusion of the first annual general meeting.

If the inaugural meeting does not exercise the powers under the preceding paragraph, those powers shall be exercised by the board of directors.

Article 259 The auditors appointed by the Company shall hold office from the conclusion of the annual general meeting of shareholders at which they were appointed until the conclusion of the next annual general meeting of shareholders.

Article 260 The auditors appointed by the Company shall enjoy the following rights:

- (1) a right to review to the books, records and vouchers of the Company at any time, the right to require the directors or senior officers of the Company to supply relevant information and explanations;
- (2) a right to require the Company to take all reasonable steps to obtain from its subsidiaries such information and explanation as are necessary for the discharge of its duties;
- (3) a right to attend shareholders' general meetings and to receive all notices of, and other communications relating to, any shareholders' general meeting which any shareholder is entitled to receive, and to speak at any shareholders' general meeting in relation to matters concerning its role as the Company's accountancy firm.

Article 261 The Company shall ensure the provision of true and complete accounting evidences, accounting books, financial statements and other financial information to the accounting firm it has engaged with withheld, omission and fraud.

Article 262 If there is a vacancy in the position of auditor of the Company, the board of directors may appoint an accountancy firm to fill such vacancy before the convening of the shareholders' general meeting. Any other accountancy firm which has been appointed by the Company may continue to act during the period during which a vacancy arises.

Article 263 The shareholders in a general meeting may by ordinary resolution remove the Company's auditors before the expiration of its term of office, irrespective of the provisions in the contract between the Company and the Company's auditors. However, the accountancy firm's right to claim for damages which arise from its removal shall not be affected thereby.

Article 264 The remuneration of an accountancy firm or the manner in which such firm is to be remunerated shall be determined by the shareholders in a general meeting. The remuneration of an accountancy firm appointed by the board of directors shall be determined by the board of directors.

Article 265 The Company's appointment, removal or non-reappointment of an accountancy firm shall be resolved by the shareholders in a general meeting. Such resolution shall be filed with the State Council. The removal or non-reappointment of an accountancy firm shall be notified to the accounting firm seven days in advance.

Where a resolution at a general meeting of shareholders is passed to appoint as auditor a person other than an incumbent auditor, to fill a casual vacancy in the office of auditor, to reappoint as auditor a retiring auditor who was appointed by the board of directors to fill a casual vacancy or to remove an auditor before the expiration of his term of office, the following provisions shall apply:

- (1) A copy of the appointment or removal proposal shall be sent (before notice of meeting is given to the shareholders) to the firm proposed to be appointed or proposing to leave its post or the firm which has left its post in the relevant fiscal year (leaving includes leaving by removal, resignation and retirement).
- (2) If the auditor leaving its post makes representations in writing and requests the Company to give the shareholders notice of such representations, the Company shall (unless the representations have been received too late) take the following measures:
  - (a) in any notice of the resolution given to shareholders, state the fact of the representations having been made; and
  - (b) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in these Articles of Association.
- (3) If the Company fails to send out the auditor's representations in the manner set out in sub-paragraph (2) above, such auditor may (in addition to his right to be heard) require that the representations be read out at the meeting.

- (4) An auditor which is leaving its post shall be entitled to attend the following shareholders' general meetings:
- (a) the general meeting at which its term of office would otherwise have expired;
  - (b) the general meeting at which it is proposed to fill the vacancy caused by its removal; and
  - (c) the general meeting which convened as a result of its resignation,

and to receive all notices of, and other communications relating to, any such meeting, and to speak at any such meeting which it attends on any part of the business of the meeting which concerns it as former auditor of the Company.

Article 266

Prior notice should be given to the accountancy firm if the Company decides to remove such accountancy firm or not to renew the appointment thereof. Such accountancy firm shall be entitled to make representations at the shareholders' general meeting. Where the accountancy firm resigns from its position as the Company's auditors, it shall make clear to the shareholders in a general meeting whether there has been any impropriety on the part of the Company.

An accountancy firm may resign its office by depositing at the Company's legal address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall contain the following statements:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
- (2) a statement of any such circumstances.

Where a notice is deposited under the preceding sub-paragraph, the Company shall within fourteen (14) days send a copy of the notice to the relevant governing authority. If the notice contains a statement under the preceding sub-paragraph (2), a copy of such statement shall be placed at the Company for shareholders' inspection. The Company should also send a copy of such statement by prepaid mail to every shareholder of Overseas-Listed Foreign Shares at the address registered in the register of shareholders.

Where the auditor's notice of resignation contains a statement in respect of the above, it may require the board of directors to convene a shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

## CHAPTER 17: INSURANCE

Article 267 The different types or items of the Company's insurance shall be insured in accordance with the relevant insurance law in China.

## CHAPTER 18: LABOUR AND PERSONNEL MANAGEMENT SYSTEMS

Article 268 The Company may at its discretion employ and dismiss employees and enter into employment contracts with all employees based on the business development needs of the Company and in accordance with the requirements of the laws and administrative regulations of the State.

Article 269 The Company may formulate its labour and payroll systems and payment methods in accordance with the relevant laws and regulations of the State and the economical benefits of the Company.

Article 270 The Company shall endeavour to improve its employee benefits and to continually improve the working environment and living standards of its employees.

Article 271 The Company shall provide pension, medical, educational, occupier disability and unemployment insurance for its employees and put in place a social security system, in accordance with the relevant laws and regulations of the State.

## CHAPTER 19: TRADE UNIONS

Article 272 The Company's employees may form trade unions, carry on trade union activities and protect their legal rights. The Company shall provide the necessary conditions for such activities.

## CHAPTER 20: MERGER AND DIVISION OF THE COMPANY

Article 273 In the event of the merger or division of the Company, a plan shall be presented by the Company's board of directors and shall be approved in accordance with the procedures stipulated in these Articles of Association. The Company shall then go through the relevant approval process. A shareholder who objects to the plan of merger or division shall have the right to demand the Company or the shareholders who consent to the plan of merger or division to acquire such dissenting shareholders' shareholding at a fair price. The contents of the resolution of merger or division of the Company shall constitute special documents which shall be available for inspection by the shareholders of the Company.



Such special documents shall be sent by means as provided in Article 295 to holders of Overseas-Listed Foreign-Invested Shares.

Article 274 The merger of the Company may take the form of either merger by absorption or merger by the establishment of a new company.

A company that absorbs other company is known as merger by absorption whereby the company being absorbed shall be dissolved. The merger of two or more companies by the establishment of a new company is known as merger by the establishment of a new company, whereby the merged companies shall be dissolved.

In the event of a merger, the merging parties shall execute a merger agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days of the date of the Company's merger resolution and shall publish a public notice in a newspaper at least three (3) times within thirty (30) days of the date of the Company's merger resolution. Within thirty days the creditors receive the notice, or within forty-five days the notice is announced, the creditors may demand the Company to settle its debts or to provide corresponding guarantee.

At the time of merger, rights in relation to debtors and indebtedness of each of the merged parties shall be assumed by the company which survives the merger or the newly established company.

Article 275 Where there is a division of the Company, its assets shall be divided up accordingly.

In the event of division of the Company, the parties to such division shall execute a division agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days of the date of the Company's division resolution and shall publish a public notice in a newspaper at least three (3) times within thirty (30) days of the date of the Company's division resolution.

Debts of the Company prior to division shall be assumed incidentally by the companies which exist after the division, except those debts that have otherwise separately agreed by the Company with the creditors in writing for the settlement of the debts before the division.

Article 276 The Company shall, in accordance with law, apply for change in its registration with the companies registration authority where a change in any item in its registration arises as a result of any merger or division. Where the Company is dissolved, the Company shall apply for cancellation of its registration in accordance with law. Where a new company is established, the Company shall apply for registration thereof in accordance with law.

When there is increase or reduction in the share capital of the Company, the Company shall apply for change in its registration with the company registration authority in accordance with the law.

## CHAPTER 21: DISSOLUTION AND LIQUIDATION

Article 277 The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- (1) a resolution for dissolution is passed by shareholders at a general meeting;
- (2) dissolution is necessary due to a merger or division of the Company;
- (3) the Company is legally declared insolvent due to its failure to repay debts as they become due; and
- (4) the Company is ordered to close down because of its violation of laws and administrative regulations.

Sub-paragraphs (1) and (2) of the above shall be approved by the State Council's foreign trade and economic authorities.

(5) shareholders holding at least 10% of the shares of the Company may apply to the People's Court to dissolve the Company if the Company experiences extreme difficulties in respect of its operation and management, which cannot otherwise be resolved, such that if the Company continues to operate, its shareholders will suffer significant losses.

Article 278 A liquidation committee shall be set up within fifteen (15) days of the Company being dissolved pursuant to sub-paragraph (1) of the preceding Article, and the composition of the liquidation committee of the Company shall be determined by an ordinary resolution of shareholders in a general meeting. If a liquidation committee is not set up within the specified time limit, the creditors of the Company may apply to the people's court to appoint designated persons to carry out the liquidation.

Where the Company is dissolved under sub-paragraph (3) of the preceding Article, the People's Court shall in accordance with the provisions of relevant laws organise the shareholders, relevant organisations and relevant professional personnel to establish a liquidation committee to carry out the liquidation.

Where the Company is dissolved under sub-paragraph (4) of the preceding Article, the relevant governing authorities shall organise the shareholders, relevant organisations and professional personnel to establish a liquidation committee to carry out the liquidation.

Article 279 Where the board of directors proposes to liquidate the Company for any reason other than the Company's declaration of its own insolvency, the board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the board of directors is of the opinion that the Company will be able to pay its debts in full within twelve (12) months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders in a general meeting for the liquidation of the Company, all functions and powers of the board of directors shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's income and expenses, the business of the Company and the progress of the liquidation; and to present a final report to the shareholders' general meeting on completion of the liquidation.

Article 280 The liquidation committee shall, within ten (10) days of its establishment, send notices to creditors and shall, within sixty (60) days of its establishment, publish a public announcement in a newspaper at least three (3) times.

A creditor shall, within thirty (30) days of receipt of the notice, or for creditors who have not personally received such notice, within forty five (45) days of the date of the first public announcement, report its rights to the liquidation committee. When reporting his rights, the creditor shall provide an explanation of matters which are relevant thereto and shall provide evidential material in respect thereof. The liquidation committee shall register the creditor's rights.

No repayment shall be made by the liquidation committee during the period of reporting creditors' rights.

Article 281 During the liquidation period, the liquidation committee shall exercise the following functions and powers:

- (1) to sort out the Company's assets and prepare a balance sheet and an inventory of assets respectively;
- (2) to send notify the creditors or to publish public announcements;
- (3) to dispose of and liquidate any unfinished businesses of the Company;

- (4) to pay all outstanding taxes and taxes incurred in the process of liquidation;
- (5) to settle claims and debts;
- (6) to deal with the surplus assets remaining after the Company's debts have been repaid;
- (7) to represent the Company in any civil proceedings.

Article 282 After it has sorted out the Company's assets and after it has prepared the balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan and present it to a shareholders' general meeting or to the relevant governing authority or the people's court for confirmation.

The company's assets shall be distributed in accordance with law or regulation. If there is no applicable law, such distribution shall be carried out in accordance with a fair and reasonable procedure determined by the liquidation committee.

Any surplus assets of the Company remaining after its debts have been repaid in accordance with the provisions of the preceding paragraph shall be distributed to its shareholders according to the class of shares and the proportion of shares held.

During the liquidation period, the Company subsists but shall not commence any business activities not related to liquidation. Prior to the repayment in accordance of the previous paragraphs, the Company's assets shall not be distributed to the shareholders.

Article 283 If after putting the Company's assets in order and preparing a balance sheet and an inventory of assets in connection with the liquidation of the Company, the liquidation committee discovers that the Company's assets are insufficient to repay the Company's debts in full, the liquidation committee shall immediately apply to the People's Court for a declaration of insolvency.

After a Company is declared insolvent by a ruling of the People's Court, the liquidation committee shall transfer all matters arising from the liquidation to the People's Court.

Article 284 Following the completion of the liquidation, the liquidation committee shall prepare a liquidation report, a statement of income and expenses received and made during the liquidation period and a financial report, which shall be verified by a Chinese registered accountant and submitted to the shareholders' general meeting or the relevant governing authority or the people's court for confirmation.

The liquidation committee shall, within thirty (30) days after such confirmation, submit the documents referred to in the preceding paragraph to the companies registration authority and apply for cancellation of registration of the Company, and publish a public announcement relating to the termination of the Company.

Article 285 The members of the liquidation committee shall act fiducially and perform the obligations of liquidation pursuant to the law.

The members of the liquidation committee shall not take advantage of his office power, taking bribes or other illegal income or illegally taking possession of the assets of the Company.

The members of the liquidation committee shall indemnify the loss incurred by the Company or the creditors as a result of his willful act or serious misconduct.

Article 286 Where the Company is declared bankrupt pursuant to the law, bankruptcy liquidation shall be implemented pursuant to the relevant enterprise bankruptcy law.

#### CHAPTER 22: PROCEDURES FOR AMENDMENT OF THE COMPANY'S ARTICLES OF ASSOCIATION

Article 287 The Company may amend its Articles of Association in accordance with the requirements of laws, administrative regulations and the Company's Articles of Association.

The Company shall amend these Articles of Association on the occurrence of any of the following events:

(1) The Company Law or the relevant laws or administrative regulations are amended and these Articles are in conflict with the amended laws or administrative regulations;

(2) There is change to the Company which makes it not consistent with these Articles of Association;

(3) It has been approved by the shareholders in a general meeting to amend these Articles.

Article 288 The Company's Articles of Association shall be amended in the following manner:

(1) The board of directors, supervisory committee and shareholders who individually or jointly hold 3% or more of the Company's voting shares shall propose the manner in which the Company's Article of Association shall be amended;

- (2) Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, the foregoing proposal shall be furnished to the shareholders in writing and a shareholders' meeting shall be convened;
- (3) The amendments shall be approved by votes representing more than two-thirds of the voting rights represented by the shareholders present at the meeting.

Article 289 Amendment of the Company's Articles of Association shall become effective upon receipt of approvals from the foreign trade and economic authorities. Amendment involving the contents of the Mandatory Provisions of Overseas-Listed Companies' Articles of Association shall become effective upon receipt of approvals from the State Council's securities authorities and the companies approving department authorised by the State Council. If there is any change relating to the registered particulars of the Company, application shall be made for change in registration in accordance with law.

Article 290 The board of directors shall amend these Articles of Association pursuant to the resolutions of shareholders in a general meeting for amendment of these Articles and the approval opinions of the competent authority.

Article 291 If the amendment to the Articles of Association is a matter which is required by the relevant laws and regulations to be disclosed, an announcement shall be made in accordance with the provisions of those laws and regulations.

#### CHAPTER 23: DISPUTE RESOLUTION

Article 292 The Company shall abide by the following principles for dispute resolution:

- (1) Whenever any disputes or claims arise between: holders of the Overseas-Listed Foreign-Invested Shares and the Company; holders of the Overseas-Listed Foreign-Invested Shares and the Company's directors, supervisors or senior officers; or holders of the Overseas-Listed Foreign-Invested Shares and holders of Domestic-Invested Shares, in respect of any rights or obligations arising from these Articles of Association, the Company Law or any rights or obligations conferred or imposed by the Company Law and special regulations (including other relevant laws) or any other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall, where such person is the Company, the Company's shareholders, directors, supervisors or senior officers of the Company, comply with the arbitration.

Disputes in respect of the definition of shareholders and disputes in relation to the register of shareholders need not be resolved by arbitration.

- (2) A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects for arbitration to be carried out at Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

- (3) If any disputes or claims of rights are settled by way of arbitration in accordance with sub-paragraph (1) of this Article, the laws of the PRC shall apply, save as otherwise provided in the laws and administrative regulations.
- (4) The award of an arbitral body shall be final and conclusive and binding on all parties.

#### Article 293

##### Definitions:

(1) de facto controller means a party that is not a shareholder of the company, but shall be capable to control the act of the Company through investment relationship, agreement or other arrangements.

(2) Connected relationship means the relationship between the controlling shareholder of the Company, its de facto controller, directors, supervisors, senior officers and enterprises directly or indirectly controlled by it, as well as other relationships that may result in the transfer of the Company's interests. However, state-owned enterprises do not have connected relationship solely as a result of being controlled by the State.

## CHAPTER 24: SUPPLEMENTARY

- Article 294 The rules of meetings of the shareholders' general meeting, the board of directors and the supervisory committee are attached as Appendices to these Articles. In the event that the rules of meetings of the shareholders' general meeting, the board of directors and the supervisory committee are in conflict with these Articles, these Articles shall prevail.
- Article 295 If a notice of the general meeting of shareholders, board meeting or meeting of the supervisory committee is issued by hand, the date when the recipient signed or stamped to acknowledge receipt of the same shall be regarded as the date of service of the notice. If the notice is issued by post, the seventh day from the date it is delivered to the post office shall be regarded as the date of service of the notice. If a notice of the Company is issued by public announcement, it shall be deemed received by the relevant officers once announced.
- Article 296 If a notice of meeting is accidentally omitted to be sent to any person who is entitled to receive pursuant to Article 168 of these Articles or that person has not received such a notice of meeting, it will not cause the meeting and any resolution made therein to be void.
- Article 297 Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, notices, communications or other written documents of the Company (including but not limited to annual reports, interim reports, quarterly reports, notices of meetings, listing documents, circulars, proxy forms and holding announcements) shall be sent by the following means:
- (1) by hand;
  - (2) by mail;
  - (3) by fax , email or other electronic format;
  - (4) subject to laws, administrative regulations and relevant provisions of securities regulatory authority of the place where the Company is listed, by publishing on the website designated by the Company and the stock exchange;
  - (5) by announcement on one national newspaper which has been approved by the State Council Securities Policy Committee and other designated media;
  - (6) by other means acceptable to securities regulatory authority of the place where the Company is listed.
- Notwithstanding the requirements in relation to the means of sending notice, communications or other documents set out in this Articles of Association, the Company may use the means set out in sub-section (4) of this Article to replace the use of personal delivery or prepaid airmail to holders of Overseas-Listed Foreign Invested Shares, provided that the listing rules issued at the listing place of the Company is complied with.



- Article 298 In these Articles of Association, references to “accountancy firm” shall have the same meaning as “auditors”.
- Article 299 The Company’s Articles of Association are written in Chinese and English. Both text shall be equally valid. If there is any discrepancy between the two versions, the Chinese version of the Articles of Association most recently filed at the Shandong Administration of Industry and Commerce shall prevail.
- Article 300 The expressions of “above”, “within” and “below” shall include the figures mentioned whilst the expression of “less than” and “more than” shall not include the figures mentioned.
- Article 301 These Articles of Association shall be interpreted by the Company’s board of directors.

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Financial Services Agreement

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between

Yankuang Group Finance Co., Ltd.

and

Yanzhou Coal Mining Company Limited

27 MARCH 2015

This agreement is made and comes into force on 27 March 2015 in Zhoucheng City, Shangdong Province, between:

**Yankuang Group Finance Co., Ltd.** (hereinafter referred to as “**Party A**”), a company with limited liability incorporated and validly exists under the laws of PRC, with registration number of business license for legal person as 370000000002238 and registered office at 329 Fushan South Road, Zoucheng City, Shandong Province and its legal representative being Zhang Shengdong.

**Yanzhou Coal Mining Company Limited** (hereinafter referred to as “**Party B**”), a joint stock limited company incorporated and validly exists under the laws of PRC, with registration number of business license for legal person as 370000400001016 and registered office at 298 Fushan South Road, Zoucheng City, Shandong Province and its legal representative being Li Xiyong.

**Where as:**

1. Party A is a non-banking financial institution duly established with the approval of the China Banking Regulatory Commission (hereinafter referred to as “CBRC”) and is specialized in corporate financial services. According to the laws and regulations in relation to corporate finance company, it provides financial services to Yankuang Group Co., Ltd. (“Yankuang Group”), the controlling shareholder of Party A, and its subsidiaries.
2. The shares publicly issued by Party B are listed on the Shanghai Stock Exchange, Hong Kong Stock Exchange and New York Stock Exchange respectively. With Yankuang Group being the controlling shareholder of both Party A and Party B, according to the domestic and overseas regulatory requirements in relation to Party B, the businesses between Party A and Party B and its subsidiaries (collectively referred to as “Party B”) constitute normal continuing connected transactions.
3. On 27 March 2015, Party A and Party B entered into the Financial Services Agreement, which was ratified by the Board of Directors of Party B on 27 March 2014. This agreement shall be effective from 1 April 2015 to 31 March 2016. Pursuant to the original Financial Services Agreement, Party A provided deposit, loan and financial services to Party B.

4. Party B agrees to continue to engage Party A as one of the financial institutions providing financial services.

Based on the principles of fairness and reasonableness and mutual benefit, Party A and Party B reached the following agreement upon negotiation in respect of Party A's provision of financial services to Party B:

#### CLAUSE 1 SERVICE PRINCIPLES

- 1.1 Party A and Party B shall cooperate and perform this agreement based on the principles of equality and voluntariness, complementary advantages, mutual benefit, joint development and co-winning partnership.
- 1.2 Party B has the right to choose the financial institution for the provision of financial services and decide the financial institution for the provision of deposit and loan services as well as the amounts thereof based on its own business needs.
- 1.3 Party A regards Party B as its important customer and undertakes that the terms for the provision of financial services to Party B at any time shall be no less favorable than the terms of the same type of financial services provided by the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China and China Construction Bank (hereinafter referred to as "Major Commercial Banks in the PRC") to Party B.

#### CLAUSE 2 CONTENTS OF SERVICES

Party A shall provide Party B with the following services:

1. Deposit service: the maximum daily balance (including accrued interests) of Party B on the settlement account in Party A shall not exceed RMB 1.18 billion.

2. Integrated credit facility: Party A shall provide Party B with a credit facility limit of RMB 400 million (including accrued interests).
3. Bill discounting service: Party A shall provide Party B with bill discounting service with the annual amount of discounting expenses not exceeding RMB 10 million.
4. Settlement services: Party B opened a settlement account with Party A, Party A shall provide settlement services of receipt and payment, entrusted loan services, guarantee services and other ancillary services in connection with settlement. Within the effective period of the agreement, the annual handling fees of the settlement services shall not exceed RMB4 million.
5. Bill acceptance services, financial and financing consultation, credit certification and relevant consultation and agency services.
6. Other services approved by China Banking Regulatory Commission.

### CLAUSE 3 PRICING OF SERVICES

- 3.1 Deposit services: the interest rate for the deposit of Party B with Party A shall not be lower than the interest rate for the same kind of deposit announced by the People's Bank of China for the same period nor lower than the interest rate for the same kind of deposit offered by the Major Commercial Banks in the PRC for the same period nor lower than the interest rate for the same kind of deposit made by other group members of Yankuang Group in Party A for the same period, the interest rate can be adjusted between the range allowed by the State.
- 3.2 Loan services: the interest rate for the loan provided by Party A to Party B shall not exceed the interest rate for the same class of loan provided by the Major Commercial Banks in the PRC to Party B for the same period. Party A shall provide the loan to Party B on normal commercial terms and no asset is required from Party B as collateral.
- 3.3 Bill discounting service: the interest rate for bill discounting provided by Party A to Party B shall not be higher than the interest rate for bill discounting provided by the Major Commercial Banks in the PRC.

- 3.4 The fees charged by Party A for the provision of financial services to Party B, including settlement services, entrusted loans, entrusted investment, security service, bill acceptance, financial and financing consultation, credit certification and relevant consultation and agency services, shall be in accordance with the relevant benchmark rates determined by the People's Bank of China or CBRC (if any). In addition, such fees shall not exceed those charged by the Major Commercial Banks in the PRC for provision of same kind of financial services to Party B; both parties shall decide whether such fees be paid one-off or by instalment according to the specific situations.

#### CLAUSE 4 REPRESENTATIONS AND WARRANTIES BY BOTH PARTIES

##### 4.1 Representations and warranties by Party A:

- 4.1.1 Party A is a non-banking financial institution legally established with the status of independent legal entity to provide professional corporate financial services. It currently holds a valid Business License for Enterprise Legal Person and Financial Business Operation Permit.
- 4.1.2 Party A has obtained all government approvals and internal authorizations for entering into this agreement and performance of the obligations hereunder. This agreement shall be binding on Party A upon execution.
- 4.1.3 Party A shall ensure the safe operation of its fund management network to safeguard the funds.
- 4.1.4 Party A shall ensure strict compliance with the risk monitoring indicators for financial institutions issued by CBRC, and the requirements of CBRC and other relevant PRC laws, regulations and regulatory documents regarding its major regulatory indicators such as gearing ratio and liquidity ratio.
- 4.1.5 Regarding the deposit of Party B in Party A, Party A can only use it for loans, discounting and fund settlement services etc for Party B and its subsidiaries, Party A shall not make investment with the deposit of Party B save for government bond purchase.
- 4.1.6 Copies of regulatory reports of Party A submitted to CBRC and other relevant regulatory authorities shall be provided to Party B as well.

- 4.1.7 The monthly financial statements of Party A shall be provided to Party B within the first 10 working days of the following month.
- 4.1.8 Party B shall have the right to review and obtain the relevant documents such as account books, financial statements and audit reports of Party A pursuant to the Company Law and the Articles of Association.
- 4.1.9 Party B shall be notified immediately by Party A the circumstances that may cause harm to the security of the deposits of Party B or any other circumstances that may jeopardize the security of the deposits of Party B. Party B shall have the right to withdraw all deposits.
- 4.2 Representations and warranties by Party B:
  - 4.2.1 Party B is a joint stock limited company legally established with the status of independent legal entity holding a valid Business License for Enterprise Legal Person.
  - 4.2.2 Party B has obtained necessary internal authorization for entering into this agreement and performance of the obligations hereunder. This agreement shall be binding on Party B upon its execution.

#### CLAUSE 5 CONFIDENTIALITY

Both Party A and Party B shall strictly perform their obligations of confidentiality and shall not disclose to the public any business information, technical records and financial position (with the exception of the reports required to be submitted to the relevant government authorities by the Parties and those required to be disclosed by Party B in accordance with the listing rules of the listing location for its securities), unless such information has already been made public previously.

#### CLAUSE 6 MISCELLANEOUS

- 6.1 Neither party shall assign or transfer its rights or obligations under this agreement to any third parties without written consent of the other party.

- 6.2 Should any clauses herein be revised, become illegal, invalid or unenforceable at any time, the other clauses shall not be affected.
- 6.3 In case of any failure of performance of its obligations of this agreement by any party pursuant to the provisions hereof due to force majeure, that party shall timely provide evidence and written notice to the other party in order not to be deemed as having made any act of default. The other party shall agree to give a reasonable period for performance of duties and obligations according to the situation.
- 6.4 Any amendment or supplement to this agreement shall be made in writing. The amendments or supplements to this agreement are integral parts hereof and shall have same effect as this agreement.
- 6.5 Unless otherwise required, failure or delay in exercising its rights hereunder by any party shall not constitute a waiver of such rights, and any single or partial exercise of such right shall not exclude its exercise of any other rights.

#### CLAUSE 7 NOTICE

- 7.1 Pursuant to this agreement, any notice or other documents sent by one party to the other party shall be given in writing and delivered by hand, by mail or by fax to the other party's address as follows:
  - (a) Party A: Yankuang Group Finance Co., Ltd.  
Address: 329 Fushan South Road, Zoucheng City, Shandong Province  
Telephone: 0537-5386804  
Facsimile: 0537-5384480
  - (b) Party B: Yanzhou Coal Mining Company Limited  
Address: 298 Fushan South Road, Zoucheng City, Shandong Province  
Telephone: 0537-5382319  
Facsimile: 0537-5383311



7.2 Time lines for serving notices and documents:

- (a) Delivery by hand: upon hand-over of the letter;
- (b) Delivery by mail: within five (5) working days after posting (excluding Saturdays, Sundays and public holidays in the PRC); and
- (c) Delivery by fax: upon receipt of fax. Where the fax is received outside business hours, the receiving time shall be the general business hours of the second day (excluding Saturdays, Sundays and public holidays in the PRC) and the sender shall present the confirmation of transmission by the fax machine to indicate the transmission is completed.

CLAUSE 8 APPLICABLE LAWS AND JURISDICTION

This agreement shall be governed by and construed in accordance with the applicable laws of the PRC. Any disputes arising from or in connection with this agreement not resolved through friendly negotiation may be submitted to Jining Arbitration Commission located in Jining City, Shandong Province, the PRC for arbitration according to its prevailing Arbitration Rules upon request of any party. The arbitral award shall be final and binding upon both parties.

CLAUSE 9 TERM OF AGREEMENT

- 9.1 Unless otherwise agreed in writing by both parties, this agreement shall take effect from 1 April 2015 and terminate on 31 March 2016, subject to the signing by the legal representatives or authorized representatives of both parties and the approval by the board of directors or the independent shareholders pursuant to the approval permission and local regulatory requirements in the listing locations of Party B. During the effective period of this agreement, if any party requests to amend or terminate this agreement, it shall notify the other party 30 days in advance in writing, the agreement can only be amended or terminated after both parties have negotiated and reached an agreement.

- 9.2 In case of material default of any clauses hereof by any party (“defaulting party”), this agreement may be terminated immediately by the other party if the defaulting party has failed to remedy such default within a reasonable period requested by the other party in a written notice pointing out the act of default, or if such act of default is not remediable.
- 9.3 The termination of this agreement shall not harm any rights or obligations of any party already incurred.

#### CLAUSE 10 SUPPLEMENTAL PROVISIONS

10.1 This agreement is written in Chinese.

This agreement is made in quadruplicate with equal effects. Party A and Party B shall each hold two copies.

(No main texts on this page, this is the execution page of the Financial Services Agreement between Yankuang Group Finance Co., Ltd. and Yanzhou Coal Mining Company Limited)

Party A: Yankuang Group Finance Co., Ltd.  
Legal representative or authorized representative (Signature):

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Party B: Yanzhou Coal Mining Company Limited  
Legal representative or authorized representative (Signature):

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**Exhibit 4.2**

Contract no:

**Coal Train Convoy Service Contract**

**Party A:** Yanzhou Coal Mining Company Limited

**Party B:** Shandong Yankuang Security Service Company Limited

**Place of contract signing:** Zoucheng city, Shandong province

**Date of contract signing:** 27 March 2015

**Party A: Yanzhou Coal Mining Company Limited**

**Party B: Shandong Yankuang Security Service Company Limited**

Pursuant to the Contract Law of the People's Republic of China, the Regulations of the Administration of Security of the People's Republic of China and other relevant laws and regulations, Party A and Party B reach the following agreement on the coal train convoy service based on the principles of "Equality and mutual benefit, utilizing complementary advantages" after arm's length negotiation for joint compliance.

I. Service contents

**(1) Service scope:** Party A will assign the coal train transportation convoy service of Xinglongzhuang coal mine, Baodian coal mine, Dongtan coal mine, Nantun coal mine, Beisu coal mine, Jining II coal mine, Jining III coal mine, as well as the servicing area of the regional railway network to Party B; and Party B will build a security transport team with security qualification to provide convoy and guarding services at the designated time and place as required by Party A.

**(2) Service requirements: No loss of theft (robbery) of coal throughout the train transportation.**

II. Rights and obligations of both parties

**(1) Rights and obligations of Party A**

1. Party A has the rights to carry out supervision, inspection and assessment of the transport services provided by Party B, and the right to request Party B to rectify any of its acts violating the provisions of this contract.

2. The convoy staff sent by Party B should have strong sense of responsibility with good physical health, if Party A finds any convoy staff sent by Party B is not suitable for carrying out the convoy service, Party A has the right to ask Party B to replace him with another staff.

3. Party A is obliged to inform Party B the time, place of dispatch, destination, route, quantity of cargo and matters requiring attention at least 3 hours in advance.

4. Party A should ensure that the car bodies of the transport vehicles are complete and that they are in good technical conditions, clean and tidy, and that the car doors are closed firmly, and they should carry out the necessary work to secure the car doors, and adopt the necessary prevention measures for the cargo to be carried to meet the normal requirements of the convoy transportation of Party B.

5. Party A should start transportation according to the time of convoy as notified to eliminate and avoid as much as possible any delay in transportation commencement and stoppage of transportation during the journey etc.

6. Party A should provide the necessary venues as for working and rest purposes to the convoy staff of Party B of the starting point and destination of convoy transportation free of charge.

7. Full amount of the fee shall be paid at the time specified in this contract.

8. A mechanism of joint prevention, mutual guarding and administration of the territory concerned is implemented for the convoy transportation work. In case of major theft or robbery, Party A should actively send the security guard staff of the place concerned to cooperate with Party B to handle the matters.

9. Party A should actively cooperate with Party B to carry out work measures which are beneficial for train convoy service.

**(2) Rights and obligations of Party B**

1. Party B shall be an entity incorporated in accordance with the law which has legal person status with the relevant qualifications and it is capable of undertaking civil liabilities.

2. Party B shall buy casualty and injury insurance etc for the employees responsible for the convoy services.

3. The convoy staff sent by Party B shall abide by the rules and regulations agreed by both parties.

4. Party B has the right to receive the full amount of the settlement fee and to use it at its will according to the time agreed in the contract.

5. Party B has the right not to accept any service item not specified in the contract and any unreasonable request.

6. The tools and vehicles required for convoy transportation shall be provided by Party B itself.

7. Party B is obliged to adopt several security guard transportation methods such as convoy in vehicle, patrolling in the journey, waiting in key locations etc to reduce the occurrence of theft or robbery of coal during the transportation process to the largest extent.

8. Party B shall not assume any liability in respect of any losses of Party A due to force majeure such as natural disasters etc during the security transportation service period.



### III. Delineation of obligations

(1) Party A shall be responsible for the security guard work when the train is inside the railway station of the starting place, before the transportation commencement and after the train arrival at the destination. Party B shall be responsible for the security guard work for the period after the transportation commencement and before the arrival of the train at the railway station.

(2) Party B shall assume the liability for any losses of casualty and property due to the violation of the requirements of security transportation, violation of transport regulations of the convoy staff or vehicles during the convoy transportation service provided by Party B to Party A; Party A and Party B shall assume their respective liabilities for any losses of casualty and property caused by the poor coordination and cooperation between them based on their attributable responsibilities; Party A shall assume the entire liability for any losses of casualty and property arising from the instructions of Party A violating the agreement or its unreasonable request.

(3) Party B will receive detailed information in connection with the convoy transportation task at least 3 hours in advance, Party B shall not assume any liability for failing to perform the contract as usual as a result of the delay of Party A in providing information.

(4) Both parties shall negotiate and arrive at a relevant contingency plan and set up an effective joint emergency handling mechanism for contingencies which may occur during the performance of the contract.

#### IV. Fee settlement

##### **(1) Acceptance and handover**

Party A shall carry out the packaging and sealing of the cargo according to the provisions of the “Rules for Unloading and Securing of Rail Cargos” (Tie Yun [2006] No. 161), the “Rules for the Administration of Rail Freight in Mining Areas” and the “Transport Agreement of National Railway Zou cheng to Fucun Session” etc, Party B shall be responsible for designing the acceptance list, the handover staff of both parties shall jointly confirm the quantity of goods packed and sealed, the type of coal, the weight of cargo and fill in the cargo dispatch and acceptance list at the site; after the cargo has arrived, the cargo arrival acceptance list shall be filled in, which shall be signed by both parties as confirmation, and such list shall be used as the basis of monthly settlement of fees.

## **(2) Assessment and settlement**

After negotiation, both parties have agreed that the salary, consumption and depreciation of materials and equipments and other costs and expenses incurred by Party B plus a reasonable profit shall be the basis for determining the payment of the fee for train convoy service by Party A to Party B.

Such fee shall be settled according to the weight of the cargo dispatched at unit price of RMB2.35/tonne provided that Party B transported the coal to the destination safely without any loss of theft (robbery) of coal during the journey, and that the difference between the weight of the cargo upon arrival and the weight of the cargo at the time of dispatch is within the range specified by the company or agreed in the contract as reasonable natural wear and tear.

## **(3) Payment of fee**

The fee for train convoy services shall be settled between both parties once a month, Party A shall make a one-off payment of the service fee for the previous month to Party B by cash or bank transfer before the 10<sup>th</sup> of the following month, based on the assessment results approved by both parties.

#### **(4) Supervision and coordination**

The acts of contract such as the assessment, acceptance and settlement of both Party A and Party B shall be supervised, inspected and guided by their joint parent company - Yankuang Group Company Limited, which also assists them to deal with external relationship and coordinate to resolve major issues.

#### **V. Service period**

The validity period of this contract is from 1 February 2015 to 31 March 2016, which shall take effect from the date on which both parties sign and affix their seals. This contract is on long term basis and shall be negotiated and signed annually. The next contract shall be entered into 30 days before the expiry of the existing contract.

#### **VI. Default liability**

(1) Party B shall make full compensation to Party A for any losses of Party A due to theft (robbery) of coal during the convoy transportation journey.

(2) If Party A does not pay the full amount of the service fee in time according to the time specified in the contract, it shall pay interest for the delay to Party B at 3% of the total service fee of the current month for each day of delay; if Party A causes Party B to suffer other losses, Party B has the right to demand Party A to compensate for the losses.

(3) Party B shall bear the default liability at 3% of the total service fee of the current month if it fails to provide the convoy transportation service in time with the exception of special poor weather conditions etc under which apparently Party B cannot provide the convoy transportation safely.

(4) If Party A has delayed to commenced the transportation or stopped the transportation during the journey, it shall pay a service delay fee to Party B at 3% of the total service fee of that batch of cargo for each delay or stoppage during the journey, such amount shall be calculated by the time of the delay or stoppage during the journey based on the "Confirmation Slip of Service Delay" signed and confirmed by both parties.

(5) If any party violates the other terms specified in this contract, it shall bear the default liability at 3-10% of the total service fee of the three previous months already settled according to the degree of seriousness of the default. If this is insufficient to indemnify the losses of the other party, the party suffering the losses has also the right to demand the defaulting party to make compensation according to the amount of the losses.

(6) All the disagreement, disputes between Party A and Party B arising from the performance of this contract and related matters shall be negotiated by both parties with a friendly attitude, if the negotiation fails, their joint parent company Yankuang Group Company Limited shall assist them to resolve the issues.

#### VII. Supplemental provisions

(1) For matters not covered by this contract, both parties can enter into a supplemental agreement after they have negotiated and reached an agreement, that supplemental agreement shall have the same legal effects as this contract.

(2) If both parties cannot continue to perform this contract due to force majeure or the policy adjustments of Yankuang Group Company Limited, both parties can rescind this contract without any liability.

(3) This contract is made in quadruplicate, with two originals and two copies, which have the same legal effects.

(4) This contract shall take effect from the date on which both parties sign and affix their seals, all the terms shall be void automatically after they have been performed.

Party A: Yanzhou Coal Mining Company Limited

Signature of representative:

Party B: Shandong Yankuang Security Service Company Limited

Signature of representative:

Signed on: 27 March 2015

**Agreement number:**

**Yankuang Group Corporation Limited**

**and**

**Yanzhou Coal Mining Company Limited**

**Relating to**

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**Equity Transfer Agreement of**

**100% of the Equity Interest of Yankuang Donghua Heavy Industry Co., Ltd.**

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Shandong, PRC



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The Equity Transfer Agreement between Yankuang Group Corporation Limited and Yanzhou Coal Mining Company Limited in relation to 100% of the Equity Interest of Yankuang Donghua Heavy Industry Co., Ltd. is entered into on 27 of July, 2015 in Zoucheng City, Shandong Province, the People's Republic of China by the following parties:

**Transferor: Yankuang Group Corporation Limited**  
Address: 298 South Fushan Road, Zoucheng City  
Legal representative: Li Xiyong

**Transferee: Yanzhou Coal Mining Company Limited**  
Address: 298 South Fushan Road, Zoucheng City, Shandong Province  
Legal representative: Li Xiyong

(The above Transferor and Transferee shall be collectively referred to as the "Parties", and individually the "Transferor", the "Transferee" or a "Party")

**Whereas:**

1. Yankuang Donghua Heavy Industry Co., Ltd. (hereinafter referred to as "Donghua Heavy Industry" or the "Target Company") is a company with limited liability legally established and validly subsisting under the laws of the PRC, with the registered capital of RMB370,568,000. Its scope of business includes: design, manufacturing, installation, maintenance and sales of mining equipment, mechanical and electrical equipment, hydraulic support, belt conveyors, scraper conveyors, rubber and plastic products, flame retardant and non-flame retardant cables, power distribution devices and mining equipment with an inert gas generator; sales of crafts (excluding gold and silver products); house and equipment leasing; and sales of metallic materials.

2. Yankuang Group Corporation Limited (hereinafter referred to as “Yankuang Group” or the “Transferor”) is a wholly stated-owned company legally established and validly subsisting under the laws of the PRC, with the registered capital of RMB3,353,388,000. Its scope of business includes: publication of periodicals, installation, opening, maintenance and sales of devices of cable broadcasting and television; value-added telecommunication services within the approval scope of licence; contracting of foreign construction projects which are compatible to the capability, scale and results within the approval scope of the qualification certificate for contracting of foreign construction projects, and the external sending of labors required for conducting the above foreign construction projects; (the following can only be operated by branch companies): mining, washing and sales of coals; comprehensive utilization of residual heat of thermoelectric, heating and power generation; road transport; woodworking; installation and maintenance of water and heat pipes; catering, hostel, swimming, cosmetic and salon and entertainment services; sales of tobacco, alcohol, sugar and tea. (The validity periods of the above items shall be subject to the licence). Advertising business; sales of electrical products, clothing, textiles and rubber products; import and export business within the scope of filing; landscaping; house and equipment leasing; coal, coal chemical and coal-power-aluminum technology development services; (the following can only be operated by branch companies): production and sales of construction materials and ammonium sulfate (white crystalline powder); manufacturing, installation, maintenance and sales of mining equipment, mechanical and electrical equipment, complete set of equipment and spare parts; decoration and refurbishment; installation, maintenance and sales of electrical equipment; processing and sales of general parts and mechanical accessories; sewage treatment; real estate development, property management; sales of daily necessities, crafts, metal materials and gas equipment; transportation of railway freight (self-supplied in the district). Yankuang Group holds 100% equity interest in Donghua Heavy Industry.
3. Yanzhou Coal Mining Company Limited (hereinafter referred to as “Yanzhou Coal” or the “Transferee”) is a joint stock company with limited liability legally established and validly subsisting under the laws of the PRC. Its publicly issued shares were listed in Hong Kong Stock Exchange and Shanghai Stock Exchange (the stock codes are 1171 and 600188, respectively) on 1 April 1998 and 1 July 1998, respectively, with the registered capital of RMB4,918,400,000. Its scope of business includes: mining and sales of coal (of which the export should be carried out through companies with coal export right according to the existing state regulations); transportation of goods through self-owned railway within the mining area; transportation of goods through highway; operation of ports; manufacturing, sales, leasing, maintenance, installation and dismantlement of machinery and equipment in the mine; production and sales of other mining materials; sales and leasing of electrical equipment and sales of related accessories; sales of metallic materials, mechanical and electrical products, construction materials, timber and rubber products; integrated science and technology services of coal mining; property development within the mining areas, property leasing and provision of services related to dining and accommodation; production and sales of coal slacks series of construction materials; sales of coke and iron ore; import and export of goods and technology; warehousing (excluding hazardous chemicals); automobile repairs; labor dispatch; property management services; landscaping; sewage treatment; heat supply.

4. Yankuang Group intends to fully transfer the 100% equity interest in Donghua Heavy Industry held by it to Yanzhou Coal, and Yanzhou Coal agrees to accept the 100% equity interest in Donghua Heavy Industry to be transferred to it.

NOW, THEREFORE, pursuant to the Company Law of the People's Republic of China, the Contract Law of the People's Republic of China, the Law on the State-Owned Assets of Enterprises of the People's Republic of China and other relevant laws and regulations, Yankuang Group and Yanzhou Coal, through amicable negotiation, hereby reach the following agreement with respect to the transfer of the 100% equity interest in Donghua Heavy Industry held by Yankuang Group to Yanzhou Coal for mutual observance:

#### **Clause 1 Definition**

In the Agreement, unless the context otherwise specifies, the following words have the meanings set forth below:

Agreement	means	the Equity Transfer Agreement between Yankuang Group Corporation Limited and Yanzhou Coal Mining Company Limited in relation to 100% of the Equity Interest of Yankuang Donghua Heavy Industry Co., Ltd. entered into between the Parties on 27 July 2015.
Transferor/ Yankuang Group	means	Yankuang Group Corporation Limited.
Transferee/ Yanzhou Coal	means	Yanzhou Coal Mining Company Limited.
Target Company/ Donghua Heavy Industry	means	Yankuang Donghua Heavy Industry Co., Ltd.

Target Equity	means	the 100% equity interest in Donghua Heavy Industry held by Yankuang Group.
Transfer Price of Target Equity	means	the transfer price of the Target Equity determined in accordance with clause 4 hereof.
Transfer Consideration of Target Equity	means	the transfer consideration of Target Equity payable by the Transferee to the Transferor in accordance with clause 5 hereof, which is equal to the Transfer Price of Target Equity.
Equity Transfer/ Transaction	means	the transfer of the Target Equity to the Transferee by the Transferor, and the acceptance of the Target Equity by the Transferee, both in accordance with the terms and conditions as stipulated in the Agreement.
Completion of the Transaction	means	the relevant matters of the Transaction being fully completed, including without limitation: (1) the registration by the Transferee as the sole shareholder of the Target Company with the Registration Authority; and (2) the filing and registration by the Registration Authority of the articles of association of the Target Company after corresponding amendments are made, and the issue of the modified business licence to the Target Company in respect of the Transaction.
Completion Date of the Transaction	means	the date on which the Transaction is completed.
Valuation Institution	means	Beijing China Enterprise Appraisals Co. Ltd. (北京中企华资产评估有限责任公司)
Asset Valuation Report	means	the Valuation Report of the Entire Shareholder's Equity Interest of Yankuang Donghua Heavy Industry Co., Ltd. in respect of the Project of the Proposed Transfer of the Entire Equity Interest in Yankuang Donghua Heavy Industry Co., Ltd. Held by Yankuang Group Corporation Limited (Zhong Qi Hua Ping Bao Zi (2015) No. 3546), which was issued by the Valuation Institution for the purpose of the Equity Transfer.

Valuation Date	means	the date of valuation set out in the Asset Valuation Report which serves as the basis for the determination of the Transfer Consideration of Target Equity, i.e. 31 December 2014.
Date of Agreement	means	the date on which the Agreement is duly signed and sealed by both Parties.
Agreement Effective Date	means	the date on which all conditions for the effectiveness set out in clause 14.1 hereof are satisfied, and the last consent or approval stated in such clause is obtained shall be the Effective Date.
Settlement	means	the settlement procedures as provided in clause 6 hereof.
Settlement Date	means	the last day of the calendar month of the Agreement Effective Date (provided that if such day is not a Working Day, extend to the next following Working Day).
Transitional Period	means	the period from the Valuation Date to the Settlement Date (excluding the Settlement Date).
PRC	means	the People's Republic of China, (for the purpose of the Agreement and except specifically agreed, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan region).
Laws	means	the laws, administrative regulations, local regulations, rules, regulatory documents, judgments, injunctions, orders or other legal requirements publicly promulgated by any court or other competent government organization(s) (as enacted and became effective from time to time).
Articles of Association	means	the Articles of Association of Yankuang Donghua Heavy Industry Co., Ltd. in effect as of the Date of Agreement and all the previous amendments to the Articles of Association.
Business Licence	means	the business licence of Donghua Heavy Industry currently in force and its business licence as modified from time to time.

Intellectual Property Rights	means	patents, trademarks, copyrights for works, copyrights, rights to designs, rights to trademarks or trade names or rights to internet domain names, rights to graphs and database, rights to confidential information (whether registered or not, and including the application for any such rights) and any other intellectual property rights with the same or similar nature elsewhere in the world.
Encumbrance	means	any mortgage right, pledge right, lien, adverse claim or other third party rights.
Related Party	means	with respect to any enterprise or natural person, “Related Party” includes the related enterprises and related natural persons of a subject or natural person, the scope of which shall be referred to the applicable provisions in the Accounting Standards for Enterprises No. 36 – Disclosure of Related Parties.
Representations, Warranties and Undertakings of the Transferor	means	has the meaning as described in clause 9.
Representations, Warranties and Undertakings of the Transferee	means	has the meaning as described in clause 10.
Government Organization	means	any national, provincial, regional, municipal, local or other level of government organization, legislative body, administrative or regulatory authority, organization, institution, committee or other similar entity (including any of its branches, departments) or any successor entity of the PRC.
Registration Authority	means	the Administration for Industry and Commerce of Zoucheng City.

Material Adverse Effect	means	with respect to a Party, any event or circumstance of such Party that individually results in a decrease of net assets of such Party, which account for 10% of the net assets at the end of the audited combined financial and accounting reporting period of the latest accounting year, or the failure of such Party to conduct its business in the manner as applicable on the Date of Agreement, but it does not include the following events or circumstances: (1) change of accounting standards; or (2) act or omission to act on the part of a Party expressly permitted by the transactions contemplated in the Agreement or any other transaction documents.
Transaction Documents	means	the Agreement and the Articles of Association (as amended).
Force Majeure	means	all events that are beyond the control of, unforeseeable, or foreseeable but unavoidable by any Party, including without limitation fire, flood, typhoon, tsunami, earthquake, act of war, etc.
Change of Laws	means	the national and any government organization of the PRC promulgates and implements new applicable laws, mandatory regulatory documents or written instructions after the execution of the Agreement, or makes any amendment, repeal or re-interpretation of laws, mandatory regulatory documents or written instructions applicable before the execution date.
Day	means	a calendar day.
Working Day	means	any day other than a Saturday, Sunday and statutory holiday of the PRC.
Calculation of Period	means	if any action or measure is intended to be made according to the Agreement before, during or after a particular period, in calculating such period, the date, being the base date in respect of the calculation of such period, should be excluded. If the last day of such period is a non-Working Day, the termination of such period should be extended to the next following Working Day.
RMB	means	Renminbi.



## **Clause 2 Target Company**

- 2.1** The Transferor undertakes and warrants that the Target Company is a company with limited liability legally established and validly subsisting, and its 100% equity interest is legally held by the Transferor.
- 2.2** Both Parties confirm that the Valuation Institution with statutory assessment qualification has conducted an asset valuation on the Target Company, and issued the Asset Valuation Report with 31 December 2014 as the Valuation Date. Both Parties reach all the terms of the Agreement on the basis of the valuation result set out in the Asset Valuation Report.

## **Clause 3 Transfer of the Target Equity**

- 3.1** As of the Date of Agreement, the Transferor holds 100% equity interest of the Target Company. The Transferor agrees to transfer the Target Equity to the Transferee, and the Transferee agrees to accept the Target Equity, both in accordance with the terms and conditions as stipulated in the Agreement. From the Settlement Date, the Transferee shall become the sole shareholder of the Target Company and the Transferor shall cease to hold any equity interest in the Target Company.
- 3.2** The Transferor undertakes that, from the Date of Agreement up to the Settlement Date, any equity interest in the Target Company held by the Transferor shall be free from any Encumbrance; and as at the Settlement Date, any equity interest in the Target Company held by the Transferee shall be free from any Encumbrance.

## **Clause 4 Transfer Price of Target Equity**

- 4.1** Both Parties agree and confirm that the assessed value of the Target Equity as at the Valuation Date, as set out in the filed Asset Valuation Report, was RMB667,497,000.

- 4.2** Based on the assessed value of the Target Equity, taking into account the financial performance of the Target Company for January to June 2015, both Parties agree and confirm to add RMB8,548,800 on top of the assessed value, the Transfer Price of the Target Equity shall be RMB676,045,800.

**Clause 5 Payment of the Transfer Consideration of Target Equity**

- 5.1** Both Parties agree and confirm that, the Transferee shall on the Settlement Date pay the Transfer Consideration of Target Equity, which is equal to the Transfer Price of Target Equity under clause 4.2 hereof, by way of a one-off cash payment to the designated bank account of the Transferor.
- 5.2** Both Parties confirm that once the Transferee has completed the payment of the Transfer Consideration of Target Equity in accordance with clause 5.1 hereof, the payment of all consideration required for its obtainment of the Target Equity under the Agreement is completed.

**Clause 6 Target Equity Settlement**

- 6.1** Both parties agree and confirm that, both parties shall start to carry out Target Equity Settlement from the Agreement Effective Date, including but not limited to:
- (1) The Transferor transferring to the Transferee the documents, information, seals, etc. in relation to the Target Company and Target Equity kept and managed by it;
  - (2) The Transferor urging the Target Company to amend the register of members, Articles of Association of the Target Company in accordance with the Agreement, and to complete registration and filing processes with relevant industrial and commercial administration;
  - (3) The Transferor urging the board and management of the Target Company it delegated to transfer their duties and relevant documents, information, seals, etc. to the board and management of the Target Company delegated by the Transferee.
- 6.2** The Transferee shall submit evidence to the Transferor on the Settlement Date to prove that it has deposited the Target Equity Transfer Price into the designated bank account of the Transferor, the Transferor shall submit to the Transferee the certificate relating to shareholders' capital contribution issued by the Target Company to the Transferee.

- 6.3 Both parties agree and confirm that, the corresponding rights and responsibilities of the Target Equity shall transfer to the Transferee from the Settlement Date, i.e. the Transferee will become the sole shareholder of the Target Company from the Settlement Date and is entitled to all shareholders' rights and shall assume corresponding shareholders' responsibilities required by laws and regulations and the Articles of Association according to law.
- 6.4 Both parties agree and confirm that, the Transferor shall complete the registration of the transfer of equity to the Transferee with the registration authority within 30 Working Days after the Settlement Date, and complete the filing processes for the directors and supervisors delegated by the Transferee with relevant industrial and commercial administration;
- 6.5 The Transferor shall use its best endeavors to procure the Target Company to complete the registration and filing processes for the change of equity, change of the board and management, etc. in relation to the Transaction with the registration authority as soon as possible, the Transferee shall offer reasonable assistance and cooperation.

**Clause 7 Profit and Loss during the Transition Period**

- 7.1 Both parties have agreed and confirmed that, the Target Equity Transfer Price has taken into account the increase in net assets of the Target Company from January to June 2015, the increase in net assets of Target Company as a result of profit realization or the decrease in net assets as a result of operating loss during the period from 1 July 2015 to the Settlement Date will be enjoyed or assumed by the Target Company, and the Target Equity Transfer Price will not be further adjusted accordingly.
- 7.2 After the Settlement Date, if necessary, an audit authority will be engaged to audit the financial condition of the Target Company for the period from January to June 2015, if the audited amount of increase in net assets of the Target Company from January to June 2015 is less than RMB8,548,800, the difference will be compensated by the Transferor to the Transferee.

### **Clause 8 Maintenance of Normal Operation and Management of the Target Company**

Both parties have agreed that, from the Date of Agreement up to the Settlement Date, the Target Company and its subsidiaries shall maintain normal operation and management, and the Transferor warrants that, during this period, Target Company and its subsidiaries will not make or carry out significant adjustment to and disposal of the operations, assets and personnel. In case there are significant changes other than normal operating activities, the Transferor shall inform the Transferee the aforesaid changes in writing immediately.

### **Clause 9 Representations, Warranties and Undertakings of the Transferor**

**9.1** Save as disclosed by the Transferor and/or the Target Company to the Transferee before the Date of Agreement, throughout the period from the Date of Agreement up to the Date of Completion of the Transaction, the Transferor, for itself, makes the following representations, warranties and undertakings as stated under this clause to the Transferee (however, for warranty with another specifically mentioned time or period, such other time or period specifically mentioned shall prevail):

- (1) The Transferor is a company with limited liability legally established and validly subsisting under the PRC law, and has the status of an independent legal person according to the PRC law.
- (2) The Transferor has the power and authority to sign and perform the Agreement, all the formalities, including but not limited to authorization, approval, internal decision making, etc., necessary for its execution of the Agreement, have been legally and validly obtained and will not be withdrawn.
- (3) The execution and performance of the Agreement will not: (a) violate the constitutive documents of the Transferor currently in effect, or (b) violate any laws of the PRC, or (c) violate any legally-binding contract or agreement to which the Transferor is a party, or (d) result in the counterparty to the agreement or arrangement already signed by the Transferor being able to assert the release of its obligations or obtain other claims.
- (4) The Transferor is required to perform the legal procedures in relation to state-owned equity transfer in accordance with the requirements of the supervision and administration of state-owned equity transfer.

**9.2** Save as disclosed by the Transferor and/or the Target Company to the Transferee before the Date of Agreement, throughout the period from the Date of Agreement up to the Date of Completion of the Transaction, the Transferor, for the Target Company and Target Equity, makes the following representations, warranties and undertakings as stated under this clause to the Transferee (however, for warranty with another specifically mentioned time or period, such other time or period as specifically mentioned shall prevail):

- (1) The Transferor is a legal shareholder of the Target Company, holds 100% equity interest in the Target Company legally and validly, and without any encumbrances. The Transferor has legal, valid and complete ownership and right of disposition in respect of the Target Equity under the Agreement, and the Target Equity is free from any encumbrances.
- (2) The execution and performance of the Agreement will not: (a) violate the constitutional documents of the Target Company currently in effect, or (b) violate any laws of the PRC, or (c) violate any legally-binding contract or agreement to which the Target Company is a party, or (d) result in the counterparty to the agreement or arrangement already signed by the Target Company being able to assert the release of its obligations or obtain other claims.
- (3) Saved as disclosed to the Transferee, the Target Company does not violate the laws, regulations and regulatory documents currently in force in the PRC, nor is it subject to any administrative penalty decision or any judgment or ruling of any court or arbitration authority which has a material adverse effect on its production and operation.
- (4) Save as disclosed to the Transferee, the Target Company is not facing or potentially facing any major litigation, claim, arbitration, administrative proceeding or other legal proceeding and contingent liability, and has fully paid all the taxes required to be paid on and prior to the Date of Agreement in accordance with the PRC laws, and warrants that it will fully pay all the taxes required to be paid by it from the Date of Agreement to the Settlement Date in accordance with the PRC laws.
- (5) The financial information, operational information, shareholding structure and shareholders' information in relation to the Target Company provided to the Transferee by the Transferor and the Target Company and held by the intermediary engaged by the Transferor and the Transferee for the purpose of the Equity Transfer is true, accurate and complete, and does not contain any false information, material omission or misleading statement.

- (6) Save as the asset defects disclosed to the Transferee, the Target Company is entitled to legal ownership and right of use in respect of its own assets, all relevant certificates and documents are in good order and without defect, and the aforesaid ownership and right of use is free from any security or other form of encumbrance or third party interest.
  - (7) The Target Company has disclosed to the Transferee a complete and accurate list of business intellectual property rights. The Target Company legally owns all the rights and interests in these business intellectual property rights, and they are free from any encumbrances. The Target Company and subsidiaries have legally obtained the right to use the intellectual property rights of third parties which they are currently using, and there is not any breach of intellectual property rights of third parties.
  - (8) The Target Company and subsidiaries comply with all the PRC laws relating to employees in all respects, and have maintained social insurance (including but not limited to basic endowment insurance, basic medical insurance, work-related injury insurance, maternity insurance and unemployment insurance) and housing provident fund for their employees according to the requirements of applicable laws of the PRC. The Target Company and subsidiaries do not have any equity incentive scheme and/or share option scheme, and no loans granted by the Target Company and subsidiaries to their employees are outstanding.
  - (9) The Target Company and/or subsidiaries are not subject to any insolvency and other situations which may lead to dissolution or liquidation, and there is no dissolution or liquidation procedure, and no distress warrant, seizure warrant, garnishee order, execution or other legal procedures targeting all or any part of the property, assets and/or operating entities of the Target Company and/or subsidiaries has been made or applied.
- 9.3** The Transferor undertakes to take necessary measures to cooperate with the Target Company and its subsidiaries and/or the Transferee, in handling the formalities for permits, licenses, property ownership certificates and property leases required for their normal construction, operation and production, to ensure that there is no legal impediment in the transfer of relevant assets and registration of property rights, change of name on licenses, transfer of creditor's rights and debts, handover of personnel, execution of property tenancy contracts, and undertakes to complete the formalities as soon as possible after the Agreement becomes effective. The Transferor undertakes that, if the Target Company suffers any loss as a result of failure in completing or timely completing any of the aforesaid, the Transferor will make a full compensation.

- 9.4** The Transferor undertakes that, the patents set out in attachments I, II, III of the Agreement are free from pledge or third party interest, and can be transferred according to law.

The Transferor agrees to transfer the patents set out in attachment I of the Agreement to Yankuang Group Zoucheng Jintong Rubber Co., Ltd. (兖矿集团邹城金通橡胶有限公司) (hereinafter referred to as “Jintong Company”), a holding subsidiary of the Transferee at nil consideration, agrees to transfer the patents set out in attachment II of the Agreement to the Target Company at nil consideration, and agrees to transfer the patents set out in attachment III of the Agreement to Yankuang Group Dalu Machinery Co., Ltd. (兖矿集团大陆机械有限公司) (hereinafter referred to as “Dalu Machinery”), a holding subsidiary of the Transferee at nil consideration. The Transferor agrees to complete the formalities for the transfer of the patents set out in attachments I, II and III of the Agreement within three months after the Agreement becomes effective. In the event that the competent patent authority makes requests such as signing a separate patent transfer agreement in respect of the transfer of patents set out in attachments I, II and III, the Transferor agrees to use its best endeavors to enter into the relevant patent transfer agreement with the Transferee and complete the transfer formalities.

- 9.5** The Transferor undertakes that, it will sign a land lease agreement, pursuant to which, it will lease the relevant land use rights of its original allocated land to the Target Company and/or the corresponding subsidiaries.

- 9.6** The Transferor undertakes that, if the occurrence of any situation after the Date of Agreement will cause the representations, warranties and undertakings of the Transferor to become untrue, inaccurate or misleading in any respect, it shall notify the Transferee immediately in writing.

### **Clause 10 Representations, Warranties and Undertakings of the Transferee**

- 10.1** Save for the conditions disclosed by the Transferee to the Transferor before the Date of Agreement, throughout the period from the Date of Agreement to the Date of Completion of the Transaction, the Transferee makes the representation and warranties as stated below in this clause to the Transferor (however, for any representation or warranty which specifically involves another time or period, the other time or period specifically mentioned shall prevail).
- 10.2** The Transferee is a joint stock company with limited liability legally established and validly subsisting under the laws of the PRC, and has the status of an independent legal person according to the laws of the PRC.
- 10.3** The execution and performance of the Agreement will not violate or conflict with any clause of the articles of association of the Transferee or other organizational rules, will not violate any agreement or contract entered into between the Transferee and other third parties, and will not violate any legal provisions.
- 10.4** The Transferee conducted prudent due diligence on the Target Company and Target Equity, is aware of and understands the information related to the Equity Transfer, including but not limited to the subject qualification of the Transferor, the relevant condition of the Target Company, the relevant records, information and evidence of the Target Equity.
- 10.5** The Transferee undertakes that, if the occurrence of any situation after the Date of Agreement will cause any of its representation, warranty and undertaking to become untrue, inaccurate or misleading in any respect, it shall notify the Transferor immediately in writing.

### **Clause 11 Personnel Settlement**

Both parties agree that, after the Settlement Date, the contractual relationship of labor of the Target Company's employees will not change as a result of the Equity Transfer. The Target Company will continue to perform the labor contracts it entered into with the employees and other relevant personnel, and the labor and social insurance relationship of such employees and personnel will remain in the Target Company.



### **Clause 12 Handling of Creditor's Rights and Debts**

Both parties confirm and agree that, after the Settlement Date, the creditor's rights, debts and other contingent liabilities of the Target Company will continue to be enjoyed or assumed by the Target Company.

### **Clause 13 Burden of Fees**

- 13.1** Unless provided by laws and regulations or otherwise agreed between both Parties to the Agreement, both Parties shall bear their own statutory and other fees, charges and expenses arising from or in connection with the negotiation, drafting or completion of the Agreement and all matters contemplated under the Agreement.
- 13.2** In respect of taxes which may be incurred in relation to the execution and performance of the Agreement and the completion of transactions under the Agreement by both Parties, if they are required by laws and administrative regulations, they will be handled by both Parties to the Agreement in accordance with the requirements.

### **Clause 14 Effectiveness of the Agreement**

- 14.1** Both parties agree and confirm that, the Agreement will become effective on the date on which all the following conditions are satisfied, and the date on which the last agreement, approval or waiver stated in such clause is obtained shall be the Effective Date:
- (1) the Agreement being signed by the legal representatives of both parties or their authorized representatives and affixed with the respective company seals;
  - (2) the Target Equity Transfer having obtained all necessary consents or approvals, including:
    - (a) the approval of regulatory authorities of state-owned assets or their authorized units on the transfer of the Target Equity;
    - (b) filing of the valuation results of the Target Equity by regulatory authorities of state-owned assets or their authorized units;
    - (c) the approval of the board of the Transferor;
    - (d) the approval of the board of the Transferee.
- 14.2** Both Parties agree and confirm that both Parties shall cooperate proactively, in order to fulfill all the aforesaid conditions as soon as possible.

## **Clause 15 Obligations before the Completion of the Transaction**

- 15.1** Upon a written request by the Transferee, the Transferor should inform the Transferee in a timely manner any changes in the share capital structure, financial condition, assets, liabilities, business, prospects or operations of the Target Company which have a material adverse effect on the Target Company.
- 15.2** From the Date of Agreement to the Completion Date of the Transaction, the Transferor should ensure the Target Company and the subsidiaries, as continuing entities, operate their existing businesses in the ordinary and normal course of business, and their nature, scope and manner shall not be interrupted or changed, and should adopt sound business principles in compliance with those applied before the Date of Agreement.
- 15.3** The Transferor undertakes that, without the prior written consent of the Transferee, from the Date of Agreement to the Completion Date of the Transaction, the Transferor will not agree or procure the Target Company to or through the Target Company agree or procure the subsidiaries to carry out any of the matters below, and warrants that the Target Company and the subsidiaries will not carry out any of the matters below during this period:
- (1) to increase, divide, decrease, reorganize or otherwise change its registered capital or grant the options or subscription right to any principal to subscribe for its registered capital, or make any undertaking in this regard;
  - (2) to announce, distribute or pay any dividend or other distributions to its shareholders;
  - (3) to make equity investment in any company;
  - (4) to borrow any amount in addition to the approved annual borrowing plan, or create any encumbrance on any asset, or provide loans to any principal outside its principal activities;
  - (5) to enter into any agreement or arrangement with its Related Parties not based on market rate or reasonable cost-plus pricing principle, or to enter into any agreement or arrangement for other businesses outside the businesses listed in its existing scope of business;
  - (6) to enter into any contract or agreement with the amount of subject over RMB1 million (or the equivalent amount in another currency) outside normal operating activities;

- (7) to acquire or dispose of any business or asset with a value over RMB1 million (or the equivalent amount in another currency) outside normal business;
- (8) to enter into any agreement, contract, arrangement or transaction which will have a Material Adverse Effect on it.

#### **Clause 16 Amendment and Revocation of the Agreement**

**16.1** Both Parties agree and confirm that when both Parties unanimously consent prior to the Completion of the Transaction, they may amend or revoke the Agreement.

**16.2** Prior to the Completion of the Transaction, the relevant party may revoke the Agreement in any of the following events:

- (1) where the objectives of the Agreement cannot be realized due to force majeure or by any reason for which any Party should not be claimed, a Party may withdraw the Agreement after giving a written withdrawal notice to the other Party;
- (2) where the court accepts a bankruptcy application against the Transferor, Target Company or Transferee, or its registration is revoked, its business licence is revoked, or it is ordered to closed down, or it loses the actual performance capacity due to other reasons, a Party may revoke the Agreement after giving a written notice to the other Party;
- (3) where any of the representations, warranties and undertakings of the Transferor is found to be false, inaccurate or misleading in any material aspects, or the Transferor significantly breaches the obligations hereunder at any time prior to the Completion of the Transaction, which causes the Target Company to suffer from Material Adverse Effects, the Transferee would have the right to revoke the Agreement through a written notice to the Transferor. However, the Transferee's non-exercise of the right does not represent a waiver of any other rights arising from the Transferor's breach of its representations, warranties and undertakings or the Transferor's breach of obligations hereunder.
- (4) where any of the representations, warranties and undertakings of the Transferee is found to be false, inaccurate or misleading in any material aspects, or the Transferee significantly breaches the obligations hereunder at any time prior to the Completion of the Transaction, the Transferor would have the right to revoke the Agreement through a written notice to the Transferee. However, the Transferor's non-exercise of the right does not represent a waiver of any other rights arising from the Transferee's breach of its representations, warranties and undertakings or the Transferee's breach of obligations hereunder;

- (5) where an internal competent organ of any Party withdraws, modifies or changes its approval or recommendation of the Agreement or the Equity Transfer in a manner unacceptable to the other Party, the other Party will have the right to revoke the Agreement after giving a written release notice.

**16.3** The amendment or revocation of the Agreement shall be made in writing.

**16.4** Following the revocation of the Agreement by the Transferor or Transferee in accordance with clause 16 hereof, the revocation of contract shall come into effect under the relevant laws such as the contract law of the PRC, except that the obligations of both Parties stipulated in clause 16.3, clause 18, clause 19, clause 20 and clause 21 hereof shall continue to be effective. Save as otherwise consented by both Parties in writing, the release of the Agreement will not affect the rights and obligations which have been occurred for both Parties prior to the release.

#### **Clause 17 Termination of the Agreement**

**17.1** The Transferor and Transferee may terminate the Agreement by joint written consent. Where the Agreement is released in accordance with clause 16, the Agreement will be early terminated.

**17.2** If any Government Organization makes any orders or judgments or takes any other actions (both Parties shall make reasonable efforts to remove such orders, judgments or actions) to restrict, prevent or otherwise prohibit the Equity Transfer permanently, and such orders, judgments or other actions are conclusive and are not subject to complaint, either the Transferor or the Transferee may terminate the Agreement.

#### **Clause 18 Notices**

**18.1** Any notice given hereunder shall be in writing and sent by express delivery or facsimile, email or telegraph. Any such notice shall be sent to the other Party at its recipient address, and shall contain sufficient descriptions and/or details indicating that it shall be treated as the subject matters of the Agreement.

- 18.2** Any notice given by facsimile, email or telegraph shall be deemed to have been served on the date when such notice is given, unless the other Party furnishes proof to the contrary evidencing that it has not received such notice as a matter of fact.
- 18.3** Any notice given by express delivery shall be deemed to have been served 3 Working Days after the date when such notice is given, unless the other Party furnishes proof to the contrary evidencing that it has not received such notice as a matter of fact.

**(1) To the Transferor: Yankuang Group Corporation Limited**

Address: 298 South Fushan Road, Zoucheng City, Shandong Province  
Postal code: 273500  
Attention: Financial Management Department of Yankuang Group Corporation Limited  
Fax: 0537-5380279

**(2) To the Transferee: Yanzhou Coal Mining Company Limited**

Address: 298 South Fushan Road, Zoucheng City, Shandong Province  
Postal code: 273500  
Attention: Board Secretary Office of Yanzhou Coal Mining Company Limited  
Fax: 0537-5383311

**Clause 19 Confidentiality**

- 19.1** Both Parties shall keep confidential the clauses of the Agreement and the non-public information on the other Party obtained through the transactions under the Agreement, and any Party must seek a written consent from the other Party if it needs to disclose the confidential information to a third party. However, the confidential information shall not include: (a) any information which is already in public domain at the time of disclosure; (b) the information which has become accessible by the general public after the disclosure not due to a Party's breach of confidentiality obligation; and (c) the information obtained by any Party through non-confidential channels without using the abovementioned confidential information.

**19.2** Notwithstanding the aforementioned provisions, the confidentiality obligations above will not apply to the following situations which may be disclosed:

- (1) disclosures as required by any applicable laws, regulations, orders or judgements;
- (2) disclosure as mandated or required by any competent governments, regulators or any relevant managing, administrative or supervisory authorities or stock exchanges;
- (3) where a Party makes disclosures to the related parties, managers, investors, or the directors, employees, managers, agents or professional advisors of itself or its related parties, managers or investors, for the purpose of fulfillment or performance of the Agreement; or
- (4) other situations informed by the prior notices of both Parties.

**19.3** The abovementioned confidentiality clauses shall still be effective when the Agreement is terminated due to full performance or other reasons.

#### **Clause 20 Liability for Default**

**20.1** After the Agreement takes effect, if any Party fails to fulfill any of its obligations hereunder in accordance with the terms hereof, or any of its representations, warranties or undertakings is false, such Party shall be deemed to be in default. The defaulting party shall indemnify the non-defaulting party against all losses suffered by the non-defaulting party as a result of the above default.

**20.2** Under the premise that there is a possibility that a Party may release the Agreement in accordance with clause 16.1 hereof, save as otherwise specified in the Agreement, in the event that a Party incurred any reasonable expenses, fees, liabilities or losses due to the other Party's default, the defaulting party shall make compensation for such expenses, fees, liabilities or losses and hold the non-defaulting Party harmless. In terms of the losses incurred due to the own fault, negligence or omission of the non-defaulting Party, and the losses or its expansions due to the lack of measures, the defaulting party will not assume liabilities.

### **Clause 21 Applicability of Laws and Settlement of Disputes**

- 21.1** The PRC Laws shall apply to the execution, performance and interpretation of the Agreement and all the matters related hereto.
- 21.2** Any dispute arising out of the performance or interpretation of the Agreement or relating to the Agreement shall first be settled by all Parties through negotiation. Within 30 days after a written notice confirming the occurrence of dispute has been issued by a Party to the other Party, where all Parties fail to settle the dispute through negotiation, any Party shall be entitled to bring a lawsuit before the competent People's Court.

### **Clause 22 Change of Laws**

- 22.1** Where the Change of Laws causes a failure in full or partial performance of the obligations under the Agreement by any Party, the other Party shall take a negotiation on the impact of the Change of Laws. Under the premise of the consensus of all Parties to the Agreement, the Party affected by the Change of Laws may, within the period and scope which its performance of obligations is affected by the Changes of Laws, suspend the execution, change the execution or get exempted from the execution of the relevant obligations which could not be executed due to the impact of the Change of Laws, and shall exercise other content decided through the consensus of all Parties to the Agreement.
- 22.2** Both Parties undertake that upon the Changes of Laws, both Parties shall use best endeavors to mutually negotiate, in order to conclude a fair solution which is closest to the Agreement, and shall make all commercially reasonable efforts to minimize the impact of the Changes of Laws.

### **Clause 23 Miscellaneous**

- 23.1** The Agreement is made in octuplicate, and each shall have the same legal effect.
- 23.2** Each Party shall hold two copies of the Agreement, and the remaining four copies shall be used to complete such procedures as the relevant governmental approval, business registration and filing.

- 23.3** If any provision of the Agreement or its attachments is found to be invalid or unenforceable by a competent authority, the remaining provisions of the Agreement shall not be affected and shall continue to be executed comprehensively and effectively.
- 23.4** No failure to exercise, partial exercise or delay in exercising any right under the Agreement by any Party hereto shall operate a waiver of such right or any other rights under the Agreement, except that a Party expressly waives its rights in writing.
- 23.5** Without the written consent of the other Party, any Party may not transfer the rights enjoyed and obligations assumed by it under the Agreement.
- 23.6** With respect to the matters not covered by the Agreement, where they are provided in the laws and regulations, they shall be carried out accordingly; if not, both Parties may enter into a supplementary agreement which shall have the same legal effect with the Agreement. If there is any conflict between the supplementary agreement and the Agreement, the supplementary agreement shall prevail.

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(This page is for the signature and stamping of the Equity Transfer Agreement of 100% of the Equity Interest of Yankuang Donghua Heavy Industry Co., Ltd between Yankuang Group Corporation Limited and Yanzhou Coal Mining Company Limited)

**Transferor: Yankuang Group Corporation Limited (seal)**

**Legal representative or authorized representative (signature):**

**Transferee: Yanzhou Coal Mining Company Limited (seal)**

**Legal representative or authorized representative (signature):**

**Attachment I: Patents intended to be transferred to Jintong Company**

<b>No.</b>	<b>Patent name</b>	<b>Type</b>	<b>Patent number</b>	<b>Patentee</b>
1	Hard mandrel depoling method for rubber hose and mandrel depoling machine (橡胶软管硬芯脱芯方法及其脱芯机)	Invention	201210257199.7	Jintong Company; Yankuang Group
2	Welding method for polypropylene soft mandrel and the welding equipment and special shaping tool (聚丙烯软芯焊接方法及其焊接设备、专用整型工具)	Invention	201010103026.0	Jintong Company; Yankuang Group
3	Shaping equipment for skeleton-reinforced polypropylene soft mandrel for rubber hose (胶管用骨架增强聚丙烯软芯整型设备)	Utility model	201020104483.7	Jintong Company; Yankuang Group
4	An anti-releasing hose joint for rubber hose (一种橡胶软管用防拔脱管接头)	Utility model	201220359891.6	Jintong Company; Yankuang Group
5	Reinforced polypropylene core rod for rubber hose (胶管用增强聚丙烯芯棒)	Utility model	201020104489.4	Jintong Company; Yankuang Group

**Attachment II: Patents intended to be transferred to Donghua Heavy Industry**

<b>No.</b>	<b>Patent name</b>	<b>Type</b>	<b>Patent number</b>	<b>Patentee</b>
1	New filling hydraulic support for thin seam (新型薄煤层充填液压支架)	Utility model	201420720082.2	Yankuang Group
2	Adjustable water and electricity locking device for boring machine (可调式掘进机电闭锁装置)	Utility model	201420699709.0	Yankuang Group
3	Self-advancing platform road train for mining material transportation (矿用物料运输自移平板列车)	Utility model	201420659147.7	Yankuang Group
4	Adjustable bridge conveyor (可调式桥式转载机)	Utility model	201420659124.6	Yankuang Group
5	Special transportation equipment of scraper conveyor (刮板输送机专用运输设备)	Utility model	201420658903.4	Yankuang Group
6	A hand-directional valve with switchable reversing and locating modes (一种可切换换向定位方式的手动换向阀)	Utility model	201420772585.4	Yankuang Group

**Attachment III: Patents intended to be transferred to Dalu Machinery**

<b>No.</b>	<b>Patent name</b>	<b>Type</b>	<b>Patent number</b>	<b>Patentee</b>
1	An anti-drop cable hook for transfer conveyor (一种用于转载机上的防脱电缆钩)	Invention	201110009289.X	Dalu Machinery; Yankuang Group
2	A chain wheel quenching device (一种链轮淬火装置)	Utility model	201420760323.6	Dalu Machinery; Yankuang Group
3	A middle groove device of scraper conveyor (一种刮板输送机中部槽装置)	Utility model	201420760982.X	Dalu Machinery; Yankuang Group

8 March 2016

**CHINA ZHESHANG BANK CO., LTD.**  
(浙商银行股份有限公司)

**YANCOAL INTERNATIONAL (HOLDING) COMPANY LIMITED**  
(兖煤国际(控股)有限公司)

**YANZHOU COAL MINING COMPANY LIMITED**  
(兖州煤业股份有限公司)

**CMB INTERNATIONAL CAPITAL LIMITED**  
(招银国际融资有限公司)

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**CORNERSTONE INVESTMENT AGREEMENT**

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**THIS AGREEMENT** is made on 8 March 2016

**BETWEEN:**

- (1) **CHINA ZHESHANG BANK CO., LTD.** (浙商银行股份有限公司), a joint stock limited company incorporated in the People's Republic of China with limited liability, whose registered office is at No.288 Qingchun Road, Hangzhou, Zhejiang Province, China (the *Company*);
- (2) **YANCOAL INTERNATIONAL (HOLDING) COMPANY LIMITED** (兖煤国际(控股)有限公司), a company incorporated in Hong Kong with limited liability, whose registered office is at 1401 Hutchison House, 10 Harcourt Road, Hong Kong (the *Investor*);
- (3) **YANZHOU COAL MINING COMPANY LIMITED** (兖州煤业股份有限公司), a company incorporated in the People's Republic of China with limited liability, whose registered office is at 298 Fushan Road South, Zoucheng City, Shandong Province, PRC (the *Guarantor*);
- (4) **CMB INTERNATIONAL CAPITAL LIMITED** (招银国际融资有限公司), whose registered office is at Units 1803-4, 18/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong (the *Underwriter's Representative*).

**WHEREAS:**

- (A) The Company proposes to obtain a listing for its H Shares (as defined below) on The Stock Exchange of Hong Kong Limited (the *Hong Kong Stock Exchange*) by way of a global offering (the *Global Offering*) comprising (i) an offer for subscription of its H Shares by the public in Hong Kong (the *Hong Kong Public Offering*), and (ii) a conditional placing outside the United States (including placing to professional and institutional investors in Hong Kong) in reliance on Regulation S under the Securities Act (as defined below) and in the United States to qualified institutional buyers (the *QIBs*) in accordance with Rule 144A under the Securities Act or any other available exemption from registration under the Securities Act (the *International Offering*).
- (B) CITIC CLSA Capital Markets Limited, China International Capital Corporation Hong Kong Securities Limited, Goldman Sachs (Asia) L.L.C. and ABCI Capital Limited are acting as the joint sponsors of the proposed listing of H Shares on the Hong Kong Stock Exchange (the *Joint Sponsors*).
- (C) The Investor wishes to make an equity investment in the Company as part of the International Offering subject to the conditions and on the basis and terms set out in this Agreement.

**IT IS AGREED** as follows:

**1. DEFINITIONS AND INTERPRETATIONS**

1.1 In this Agreement, including its schedules, each of the following words and expressions shall have the following meanings, unless the context otherwise requires:

*associate* shall have the meaning ascribed to it in the Listing Rules and *associates* shall be construed accordingly;

**Brokerage** means brokerage calculated as 1% of the aggregate Offer Price in respect of the Investor Shares;

**business day** means any day (other than Saturday and Sunday) on which banks in Hong Kong are generally open for normal banking business and on which the Hong Kong Stock Exchange is open for the business of dealing in securities;

**CCASS** means the Hong Kong Central Clearing and Settlement System established and operated by The Hong Kong Securities Clearing Company Limited;

**Companies Ordinance** means the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time;

**Companies (Winding Up and Miscellaneous Provisions) Ordinance** means the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time;

**connected person** shall have the meaning ascribed to it in the Listing Rules;

**dispose of** includes, in respect of any H Shares, offering, pledging, charging, selling, mortgaging, lending, creating, transferring, assigning or otherwise disposing of (including by the creation of or any agreement to create or selling or granting or agreeing to sell or grant any option or contract to purchase or any warrant or right to purchase, or purchasing or agreeing to purchase any option, contract, warrant or right to sell) any legal or beneficial interest in the H Shares or any other securities convertible into or exercisable or exchangeable for such H Shares, or that represent the right to receive, such H Shares, or contracting to do so, whether directly or indirectly and whether conditionally or unconditionally, or entering into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incidents of ownership of such H Shares or such other securities, or entering into any other transaction with the same economic effect as any of the foregoing transactions, or agreeing or contracting to, or publicly announcing an intention to, enter into any of the foregoing transactions, in each case whether any of the foregoing transactions is to be settled by delivery of H Shares or such other securities convertible into H Shares, in cash or otherwise; and **disposal** shall be construed accordingly;

**Global Offering** has the meaning given to it in Recital (A);

**H Shares** means the overseas foreign invested ordinary shares in the share capital of the Company having a nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and proposed to be listed on the Hong Kong Stock Exchange;

**HK\$** or **Hong Kong dollar** means the lawful currency of Hong Kong;

**Hong Kong** means Hong Kong Special Administrative Region of the PRC;

**Hong Kong Public Offering** has the meaning given to it in Recital (A);

**Hong Kong Stock Exchange** means The Stock Exchange of Hong Kong Limited;

**International Offering** has the meaning given to it in Recital (A);



**International Offering Circular** means the final offering circular expected to be issued by the Company to the prospective investors (including the Investor) in connection with the International Offering;

**Investor Shares** means the H Shares to be purchased by the Investor pursuant to this Agreement, which is 400,000,000 H Shares;

**Joint Global Coordinators** means the joint global coordinators to be appointed by the Company in relation to the Global Offering;

**Laws** means all laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees or rulings of any court, government, governmental or regulatory authority (including, without limitation, the Hong Kong Stock Exchange and the SFC) of all relevant jurisdictions;

**Levies** means the SFC transaction levy of 0.0027% and the Hong Kong Stock Exchange trading fee of 0.005%, in each case, of the aggregate Offer Price;

**Listing Date** means the date on which the H Shares are first listed on the Hong Kong Stock Exchange;

**Listing Rules** means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and the listing decisions, guidelines and other requirements of the Hong Kong Stock Exchange, each as amended or supplemented from time to time;

**Lock-up Period** has the meaning given to it in clause 5.1;

**Over-allotment Option** has the meaning ascribed to it in the International Offering Circular;

**Offer Price** means the final Hong Kong dollar price per H Share (exclusive of Brokerage and Levies) at which the H Shares are to be offered and sold pursuant to the Global Offering;

**Parties** means the named parties to this Agreement, and “**Party**” shall mean any one of them, as the context shall require;

**PRC** means the People’s Republic of China, excluding, for purposes of this Agreement only, Hong Kong, Macau and Taiwan;

**Preliminary Offering Circular** means the preliminary offering circular expected to be issued by the Company to the prospective investors (including the Investor) in connection with the International Offering;

**Public Documents** means the Preliminary Offering Circular and the International Offering Circular for the International Offering and the prospectus and application forms to be issued in Hong Kong by the Company for the Hong Kong Public Offering and such other announcements which may be issued by the Company in connection with the Global Offering;

**Relevant Shares** means the Investor Shares to be purchased by the Investor pursuant to this Agreement, and any shares or other securities of the Company which are derived therefrom pursuant to any rights issue, capitalisation issue or other form of capital reorganisation (whether such transactions are to be settled in cash or otherwise) and any interest therefrom;

**RMB** means Renminbi, the lawful currency of the PRC;

**Securities Act** means the United States Securities Act of 1933, as amended from time to time and rules promulgated thereunder;

**SFC** means The Securities and Futures Commission of Hong Kong;

**SFO** means the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time;

**U.S.** and **United States** means the United States of America, its territories and possession, any state of the United States and the District of Columbia; and

**US\$** or **US dollar** means the lawful currency of the United States.

1.2 For the purposes of this Agreement, the “**affiliates**” of any person (the “**first**”) mean (i) any person which directly or indirectly through one or more intermediaries controls the first, (ii) all entities of which the first has direct or indirect control and (iii) any other person of which a person in (i) has direct or indirect control. For the purpose of this clause, the term control means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.

1.3 In this Agreement, unless the context otherwise requires:

- (a) a reference to a **clause, sub-clause** or **schedule** is a reference to a clause or sub-clause of or a schedule to this Agreement;
- (b) the index and clause and schedule headings are for convenience only and shall not affect the construction or interpretation of the Agreement;
- (c) the recitals and schedules form an integral part of this Agreement and have the same force and effect as if expressly set out in the body of this Agreement and any reference to this Agreement shall include the recitals and schedules;
- (d) the singular number shall include the plural and vice versa and words importing one gender shall include the other gender;
- (e) a reference to this Agreement or another instrument includes any variation or replacement of either of them;
- (f) references to times of the day are, unless otherwise specified, to Hong Kong time;
- (g) a reference to a person includes a reference to an individual, a firm, a company, a body corporate, an unincorporated association, an authority, a government, a state or agency of a state, a joint venture, association or partnership (whether or not having separate legal personality);
- (h) references to any legal term for any action, remedy, method or judicial proceeding, legal document, legal status, court, official or any legal concept or thing in respect of any jurisdiction other than Hong Kong is deemed to include what most nearly approximates in that jurisdiction to the relevant Hong Kong legal term; and
- (i) the term **subsidiary** has the meaning ascribed to it in section 15 of the Companies Ordinance.

## 2. INVESTMENT

2.1 Subject to the conditions referred to in clause 3 below being fulfilled (or waived by the Parties, except that the condition set out in clauses 3.1(c) and (d) cannot be waived) and other terms and conditions of this Agreement:

- (a) the Investor will acquire the Investor Shares at the Offer Price under and as part of the International Offering through the Underwriter's Representative (or their affiliates) in its capacity as an international representative of the international underwriters of the relevant portion of the International Offering; and
- (b) the Investor will pay the aggregate Offer Price and the related Brokerage and Levies in respect of the Investor Shares on the Listing Date.

For the avoidance of doubt, the number of Investor Shares and the Offer Price shall be subject to the final determination by the Company and the Joint Global Coordinators (on behalf of the international underwriters), and such determination will be conclusive and binding on the Investor.

2.2 The Investor may elect to acquire the Investor Shares through one of its wholly owned subsidiaries that is a "professional investor" (as defined in Section 1 of Schedule 1 to the SFO) and (i) is not a U.S. person as defined in Regulation S under the Securities Act; or (ii) is a Qualified Institutional Buyer (*QIB*) as defined in Rule 144A under the Securities Act (the ***Investor Subsidiary***), by giving notice in writing to the Company, the Joint Sponsors and the Underwriter's Representative, not later than two Business Days prior to the Listing Date and shall:

- (a) procure the Investor Subsidiary on such date to provide to the Company, the Joint Sponsors and the Underwriter's Representative written confirmation that it agrees to be bound by the same agreements, representations, undertakings, acknowledgements and confirmations given in this Agreement by the Investor (which shall be deemed to be giving the same for itself and on behalf of the Investor Subsidiary);
- (b) unconditionally and irrevocably guarantee to each of the Company, the Joint Sponsors and the Underwriter's Representative the due and punctual performance and observance by the Investor Subsidiary of all its agreements, obligations, undertakings, warranties, representations, indemnities, consents, acknowledgements, confirmations and covenants under this Agreement; and
- (c) fully indemnify and keep indemnified each of the Company, the Joint Sponsors and the Underwriter's Representative against all losses, damages, claims, liabilities, costs and expenses which they may suffer, incur or sustain directly arising from any breach by the Investor Subsidiary of any such agreements, obligations, undertakings, warranties, representations, indemnities, consents, acknowledgements, confirmations or covenants.

The Investor's obligations under this clause 2.2 constitute direct, primary and unconditional obligations to pay on demand by the Company, the Joint Sponsors or the Underwriter's Representative any sum which the Investor Subsidiary is liable to pay under this Agreement and to promptly perform on demand any obligation of the Investor Subsidiary under this Agreement without requiring the Company, the Joint Sponsors or the Underwriter's Representative first to take steps against the Investor Subsidiary or any other person. Except where the context otherwise requires, the term Investor shall be construed in this Agreement to include Investor Subsidiary.

2.3 Subject to due payment pursuant to clause 2.1 and in accordance with clause 4.2, the Investor Shares will, when delivered to the Investor in accordance with clause 4.3, be fully paid and free from all options, liens, charges, mortgages, pledges, claims, equities, encumbrances and other third party rights and shall rank *pari passu* with the H Shares then in issue and to be listed on the Hong Kong Stock Exchange.

### **3. AGREEMENT CONDITIONAL UPON COMPLETION OF GLOBAL OFFERING**

3.1 The Investor's obligation under this Agreement to acquire, and the Company's, the Joint Sponsors' and the Underwriter's Representative's (or their respective affiliates') obligations to issue, place, allocate and/or deliver (as the case may be), the Investor Shares pursuant to clause 2.1 are conditional only upon each of the following conditions having been satisfied at or prior to the Closing:

- (a) the underwriting agreement for the Hong Kong Public Offering and the underwriting agreement for the International Offering being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in the respective underwriting agreements;
- (b) neither of the aforesaid underwriting agreements having been terminated;
- (c) the Listing Committee of the Hong Kong Stock Exchange having granted the listing of, and permission to deal in, the H Shares (including the Investor Shares) and that such approval or permission having not been revoked;
- (d) no Laws shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or herein and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and
- (e) the respective representations, warranties, undertakings and confirmations of the Investor and the Guarantor in clause 6 (as of the date of this Agreement) are and (as of the Listing Date) will be accurate and true in all respects and not misleading and that there is no material breach of this Agreement on the part of the Investor.

3.2 If (i) any of the conditions contained in clause 3.1 has not been fulfilled or if such condition(s) have not been waived by the Company, the Joint Sponsors and the Underwriter's Representative (except that the conditions set out in clauses 3.1(c) and (d) cannot be waived) on or before the date that is 60 days after this Agreement (or such other date as may be agreed among the Company, the Investor, the Joint Sponsors and the Underwriter's Representative); or (ii) the Global Offering is not completed as contemplated in the Public Documents, the obligation of the Investor to purchase, and the Company's and the Underwriter's Representative's obligations to issue, place and/or allocate and deliver (as the case may be), the Investor Shares shall cease and any amount paid by the Investor hereunder will be repaid to the Investor without interest and this Agreement will terminate and be of no effect and all obligations or liabilities on the part of the Company, the Joint Sponsors and the Underwriter's Representative shall cease and terminate, provided that termination of this Agreement pursuant to this clause 3.2 shall be without prejudice to the accrued rights or liabilities of the Company to the Investor pursuant to the terms herein at or before such termination.

3.3 The Investor acknowledges that there can be no guarantee that the Global Offering will be completed, and no liability of the Company, the Joint Sponsors and the Underwriter's Representative (or their respective affiliates) to the Investor will arise if the Global Offering is not completed for any reason by the dates and times contemplated or at all except that any amount paid by the Investor hereunder will be repaid to the Investor without interest. The Investor hereby waives any right (if any) to bring any claim or action against the Company or any or all of the Joint Sponsors or the Underwriter's Representative and/or their respective affiliates on the basis that the Global Offering is not completed for any reason by the dates and times contemplated or at all.

#### 4. CLOSING

4.1 Subject to clause 3, the Investor will acquire the Investor Shares pursuant to, and as part of, the International Offering through the Underwriter's Representative (or its affiliates) in its capacity as an international representative of the international underwriters of the relevant portion of the International Offering. Accordingly, the Investor Shares will be acquired contemporaneously with the closing of the International Offering at such time and in such manner as shall be determined by the Joint Global Coordinators. The number of Investor Shares will not be affected by any re-allocation of H Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering nor affected by any exercise of the Over-allotment Option.

4.2 The Investor shall make full payment at the aggregate Offer Price for all of the Investor Shares and the related Brokerage and Levies to the Underwriter's Representative by same day value credit at 9:30 a.m. Hong Kong time on the Listing Date in Hong Kong dollars by wire transfer in immediately available clear funds without any deduction or set-off to such Hong Kong dollar bank account as may be notified to the Investor by the Underwriter's Representative in writing no later than three clear business day prior to the Listing Date, which notice shall include, inter alia, the payment account details and the total amount payable by the Investor hereunder.

4.3 Subject to due payment(s) for the Investor Shares being made in accordance with clause 4.2 and the receipt thereof, delivery of the Investor Shares to the Investor shall be made through CCASS by depositing the Investor Shares directly into CCASS for credit to such CCASS investor participant account or CCASS stock account as may be specified by the Investor on the Listing Date in accordance with clause 4.2.

4.4 Delivery of and payment for the Investor Shares may also be made in any other manner which the Company, the Joint Sponsors, the Underwriter's Representative and the Investor may agree in writing.

4.5 If payment of the Investor Shares and the related Brokerage and Levies (whether in whole or in part) is not received or settled in the time and manner stipulated in this Agreement, the Company, the Joint Sponsors and the Underwriter's Representative reserve the right, in their respective absolute discretion, to terminate this Agreement and in such event all obligations and liabilities on the part of the Company, the Joint Sponsors and the Underwriter's Representative shall cease and terminate (but without prejudice to any claim which the Company, the Joint Sponsors or the Underwriter's Representative may have against the Investor arising out of its failure to comply with its obligations under this Agreement). Each of the Investor and the Guarantor shall in any event be fully responsible for and indemnify, hold harmless and keep fully indemnified, on an after-tax basis, the Company, the Joint Sponsors and the Underwriter's Representative against any loss and damages they and each of their respective officers, directors, employees, affiliates, agents, representatives and advisors may suffer arising out of any failure on the part of the Investor to pay for the Investor Shares and the related Brokerage and Levies in full and any failure on the part of the Investor to comply with any term of this Agreement.

4.6 The Company, the Joint Sponsors and the Underwriter's Representative respectively shall not be liable for any failure or delay in the performance of its obligations under this Agreement if it is prevented or delayed from performing its obligations under this Agreement as a result of circumstances beyond the Company's, the Joint Sponsors' or the Underwriter's Representative's (as the case may be) control, including, but not limited to, acts of God, flood, war (whether declared or undeclared), terrorism, fire, riot, rebellion, civil commotion, strike, lockout, other industrial action, general failure of electricity or other supply, aircraft collision, technical failure, outbreak of disease, accidental or mechanical or electrical breakdown, computer failure or failure of any money transmission system, embargo, labour dispute and changes in any existing or future laws, ordinances, regulations, any existing or future act of governmental activity or the like.

4.7 In the event that the requirement pursuant to Rule 8.08(3) of the Listing Rules, in which no more than 50% of the Shares in public hands on the Listing Date can be beneficially owned by the three largest public Shareholders cannot be satisfied, the Joint Global Coordinators, the Underwriter's Representative and the Company have the right to adjust the allocation of the number of Investor Shares to be purchased by the Investor in their sole and absolute discretion to satisfy the requirement pursuant to Rule 8.08(3) of the Listing Rules.

## **5. RESTRICTIONS ON THE INVESTOR AND THE GUARANTOR**

5.1 Subject to clause 5.3, the Investor for itself and on behalf of the Investor Subsidiary (where the Investor Shares are to be acquired by the Investor Subsidiary), agrees, covenants and undertakes to the Company, each of the Joint Sponsors and the Underwriter's Representative that unless it has obtained prior written consent of the Company, the Joint Sponsors and the Underwriter's Representative, it will not, and will cause its affiliates not to, whether directly or indirectly, at any time during the period of six months starting from and inclusive of the Listing Date (the **Lock-up Period**), (i) dispose of any Relevant Shares or any interest in the Investor Subsidiary or any company or entity (directly or indirectly) holding any Relevant Shares in any way, except otherwise permitted pursuant to clause 5.3(d); (ii) enter into any transactions directly or indirectly with the same economic effect as any aforesaid transactions; (iii) publicly announce any intention to enter into any aforesaid transaction; and (iv) agree or contract to do any aforesaid transactions.

5.2 The Company, the Joint Sponsors and the Underwriter's Representative acknowledge that, after the expiry of the Lock-up Period specified in clause 5.1, the Investor shall, subject to requirements under applicable Laws, be free to dispose of any Relevant Shares provided that the Investor shall ensure that any such disposal does not create a disorderly or false market in the H Shares and is in compliance with the SFO and all other applicable Laws, and shall use its best endeavours to notify the Company in writing prior to the disposal; and the Investor will not enter into any such transaction with a person who, to the best knowledge of the Investor after making due enquiries, engages directly or indirectly in a business that competes or potentially competes with the business of the Company or with any other entity that is a holding company, subsidiary or associate (as defined in the Listing Rules) of such person before using its best endeavours to notify the Company in writing prior to the transaction.

5.3 Nothing contained in clause 5.1 shall prevent the Investor from transferring all or part of the Relevant Shares to any wholly-owned subsidiaries of the Investor, provided that:

- (a) prior to such transfer, such wholly-owned subsidiary gives a written undertaking (in favour of the Company, the Joint Sponsors and the Underwriter's Representative) agreeing to, and the Investor undertakes to procure that such wholly-owned subsidiary will, (i) be bound by the Investor's obligations under this Agreement, including without limitation the restrictions in this clause 5 imposed on the Investor, as if such wholly-owned subsidiary were itself subject to such obligations and restrictions and (ii) give the same acknowledgments, representations and warranties as provided in clause 6 below;
- (b) the Investor and such wholly-owned subsidiary of the Investor shall be treated as being the Investor in respect of all the Relevant Shares held by them and shall jointly and severally bear all liabilities and obligations imposed by this Agreement;
- (c) if at any time prior to expiration of the Lock-up Period, such wholly-owned subsidiary ceases or will cease to be a wholly-owned subsidiary of the Investor, it shall (and the Investor shall procure that such subsidiary shall) immediately transfer the Relevant Shares it holds to the Investor or another wholly-owned subsidiary of the Investor, which gives a written undertaking (in favour of the Company, the Joint Sponsors and the Underwriter's Representative) agreeing to, and the Investor shall undertake to procure such new subsidiary will, be bound by the Investor's obligations under this Agreement, including without limitation the restrictions in this clause 5 imposed on the Investor, and give the same acknowledgments, representations and warranties hereunder, as if such wholly-owned subsidiary were itself subject to such obligations and restrictions, and shall jointly and severally bear all liabilities and obligations imposed by this Agreement; and
- (d) such subsidiary is not a U.S. Person (as defined in Rule 902(k) of Regulation S under the Securities Act), and is and will be outside the United States and would be acquiring the Relevant Shares in an offshore transaction in reliance on Regulation S under the Securities Act, or is a QIB in reliance on Rule 144A under the Securities Act.

5.4 Each of the Investor and the Guarantor agrees and undertakes that, save with the prior written consent of the Company, the aggregate holding (whether direct and indirect) of the Investor, the Guarantor and its/their respective associates in the total issued share capital of the Company shall be less than 10% (or such other percentage as provided in the Listing Rules from time to time for the definition of substantial shareholder or such other percentage as required by the Hong Kong Stock Exchange from time to time as constituting a member of the public) of the Company's entire issued share capital at all times and it would not become a connected person of the Company within the meaning of the Listing Rules during the period of 12 months following the Listing Date and, further, that the aggregate holding (direct and indirect) of the Investor, the Guarantor and its/their respective associates in the total issued share capital of the Company shall not be such as to cause the total securities of the Company held by the public (as contemplated in the Listing Rules and interpreted by the Hong Kong Stock Exchange) to fall below the required percentage set out in Rule 8.08 of the Listing Rules or such other percentage as may be approved by the Hong Kong Stock Exchange and applicable to the Company from time to time.

5.5 The Investor and the Guarantor shall not, and shall procure that none of its/their respective associates shall, apply for or place an order through the book building process for H Shares in the Global Offering (other than the Investor Shares) or make an application for H Shares in the Hong Kong Public Offering.

## 6. ACKNOWLEDGEMENTS AND WARRANTIES

6.1 Each of the Investor and the Guarantor, jointly and severally, acknowledges, agrees and confirms with each of the Company, the Joint Sponsors and the Underwriter's Representative that:

- (a) each of the Company, the Joint Sponsors, the Underwriter's Representative and their respective affiliates, directors, officers, employees, agents, advisors and representatives makes no representation and gives no warranty or undertaking that the Global Offering will proceed or be completed (within any particular time period or at all) or that the Offer Price will be within the indicative range set forth in the Public Documents, and will be under no liability whatsoever to the Investor or the Guarantor in the event that the Global Offering does not proceed or is not completed for any reason except that any amount paid by the Investor hereunder will be repaid to the Investor without interest, or that the Offer Price will not be within the indicative range set forth in the Public Documents;
- (b) this Agreement, the background information of the Investor and the Guarantor and the relationship and arrangements between the Parties contemplated by this Agreement will be required to be disclosed in the Public Documents and other marketing and/or roadshow materials for the Global Offering and that the Investor and the Guarantor will be referred to in the Public Documents and such other marketing and/or roadshow materials and announcements and, specifically, this Agreement will be a material contract required to be filed with regulatory authorities and made available for public inspection in connection with the Global Offering or otherwise pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Listing Rules;
- (c) the Offer Price is to be determined solely and exclusively by an agreement between the Company and the Joint Global Coordinators (each for themselves and on behalf of the international underwriters of the relevant portion of the International Offering) and the Investor shall have no right to raise any objection thereto;
- (d) the Investor Shares will be acquired by it through the Underwriter's Representative and/or their affiliates in their capacities as an international representative of the international underwriters of the International Offering;
- (e) it will accept the Investor Shares on and subject to the terms and conditions of the articles of association of the Company;
- (f) at or around the time of entering into this Agreement or at any time hereafter but before the closing of the International Offering, the Company, the Joint Sponsors and/or the Underwriter's Representative have entered into, or may and/or propose to enter into, agreements similar to this Agreement with one or more other investors as part of the International Offering, and neither the Company, the Joint Sponsors, the Underwriter's Representative nor any of their respective subsidiaries, agents, directors, employees or affiliates nor any party involved in the Global Offering takes any responsibility to any tax, legal, currency or other economic or other consequences of the acquisition of, or in relation to any dealings in, the Investor Shares;



- (g) the Investor Shares have not been and will not be registered under the Securities Act or in any state or other jurisdiction of the United States and may not be offered, resold, pledged or otherwise transferred directly or indirectly in the United States or to or for the account or benefit of U.S. Persons (as defined in Regulation S under the Securities Act) except pursuant to an effective registration statement or an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, or in any other jurisdiction or for the account or benefit of any persons in any other jurisdictions except pursuant to an exemption from, or in a transaction not subject to, any other applicable Laws;
- (h) if the Investor is purchasing the Investor Shares in reliance on Rule 144A under the Securities Act, the Investor Shares will constitute “restricted securities” within the meaning of Rule 144 under the Securities Act;
- (i) transfers of the Investor Shares may only be made inside the United States in accordance with Rule 144 under the Securities Act or outside the United States in an “offshore transaction” (as defined in Regulation S under the Securities Act) in accordance with Regulation S under the Securities Act and in each case, in accordance with any applicable securities laws of any state of the United States, and any share certificate(s) representing the Investor Shares shall bear a legend substantially to such effect;
- (j) the Investor understands that none of the Company, the Joint Sponsors, the Underwriter’s Representative or any of the international underwriters of the International Offering has made any representation as to the availability of Rule 144, Rule 144A or any other exemption under the Securities Act for the subsequent reoffer, resale, pledge or transfer of the Investor Shares;
- (k) to the extent any of the Investor Shares are held by a wholly-owned subsidiary of the Investor, the Investor shall procure that such subsidiary remains a wholly-owned subsidiary of the Investor and continue to adhere to and abide by the terms and conditions hereunder for so long as such subsidiary continues to hold any of the Investor Shares before the expiration of the Lock-up Period;
- (l) the Investor has received (and may in the future receive) information that may constitute material or non-public information in connection with its investment in (and holding of) the Investor Shares, and it will not use such information for any purpose other than for evaluating its investment in the Investor Shares, and will not disclose such information to any person other than its affiliates, associates, directors, officers, employees, advisors and representatives, and will ensure that, its affiliates, associates, directors, officers, employees, advisors and representatives do not purchase, sell or trade or alternatively, deal, directly or indirectly, in the H Shares or other securities or derivatives of the Company or any of its affiliates or associates in a manner that could result in any violation of the securities laws (including insider trading provisions) of the United States, Hong Kong, the PRC, Japan or any other applicable jurisdiction relevant to such dealing;

- (m) the information contained in this Agreement and the draft prospectus(es) and the draft Preliminary Offering Circular(s) for the Global Offering and any other materials provided (whether in writing or verbally) to the Investor, the Guarantor or its/their respective representatives on a confidential basis may not be reproduced, disclosed, circulated or disseminated to any other person save as otherwise provided in clause 9.1 of this Agreement, and such information and materials so provided are subject to change, updating, amendment and completion and should not be relied upon by the Investor or the Guarantor in determining whether to invest in the Investor Shares. For the avoidance of doubt:
- (i) neither the draft prospectus(es) nor the draft Preliminary Offering Circular(s) nor any other materials which may have been provided to the Investor constitutes an invitation or offer to acquire, purchase or subscribe for any securities and nothing contained in either of the draft prospectus(es) or the draft Preliminary Offering Circular(s) or any other materials which have been provided (whether in writing or verbally) to the Investor shall form the basis of any contract or commitment whatsoever; and
  - (ii) no offers or invitations to subscribe for, acquire or purchase any securities shall be made or received on the basis of the draft Preliminary Offering Circulars or the draft prospectuses for the Global Offering or any other materials which may have been provided (whether in writing or verbally) to the Investor;
- (n) this Agreement does not, collectively or separately, constitute an offer of securities for sale in the United States or any other jurisdictions;
- (o) only information provided in the International Offering Circular issued by the Company and not any other information which may have been furnished to the Investor by or on behalf of the Company, the Joint Sponsors and/or the Underwriter's Representative (including their respective directors, officers, employees, advisors and affiliates) on or before the date hereof shall be deemed to be relied upon by the Investor in making its investment decision, and each of the Company, the Joint Sponsors, the Underwriter's Representative and their respective directors, officers, employees, advisors and affiliates makes no representation and gives no warranty or undertaking as to the accuracy or completeness of any such information not contained in the International Offering Circular and none of the Company, the Joint Sponsors, the Underwriter's Representative or their respective directors, officers, employees, advisors or their affiliates has or will have any liability to the Investor, the Guarantor or its/their respective associates, affiliates or advisors resulting from their use of such information, or otherwise for any information contained in or omission from the International Offering Circular. The draft prospectus which may have been furnished to the Investor may be subject to further amendments subsequent to the entering into of this Agreement and the Investor hereby consents to such amendments (if any) and waive its rights in connection with such amendments (if any) except that the Investor shall review and provide comments on any statement in any of the Public Documents which relates to the general background information on the Investor;
- (p) none of the Joint Sponsors, the Underwriter's Representative, the other underwriters or their respective directors, officers, employees, subsidiaries, agents, associates, affiliates and advisors has made any warranty, representation or recommendation to the Investor or the Guarantor as to the merits of the Investor Shares, the subscription, purchase or offer thereof, or as to the business, operations, prospects, the condition, financial or otherwise, of the Company or its subsidiaries, or as to any other matter relating thereto or in connection therewith; and except as provided in the final International Offering Circular, none of the Company and its subsidiaries, agents, affiliates and advisors has made any warranty, representation or recommendation to the Investor or the Guarantor as to the merits of the Investor Shares, the subscription, purchase or offer thereof, or as to the condition, financial or otherwise, of the Company or its subsidiaries or as to any other matter relating thereto or in connection therewith;

- (q) the Investor and the Guarantor will comply with all restrictions (if any) applicable to it from time to time under this Agreement, the Listing Rules and any applicable Laws on the disposal by it (directly or indirectly), of any of the Relevant Shares in respect of which it is or will be (directly or indirectly), or is shown by the prospectus of the Company to be the beneficial owner;
- (r) it has conducted its own investigation with respect to the Company and the Investor Shares and obtained its own independent advice (including without limitation, tax, regulatory, financial, accounting, legal, currency and otherwise) to the extent it considers necessary or appropriate or otherwise has satisfied itself concerning, including and without limitation, the tax, regulatory, financial, accounting, legal, currency and other economic considerations related to the investment in the Investor Shares and as to the suitability thereof for the Investor, and has not relied, and will not be entitled to rely on any advice (legal and otherwise) given by the counsels to the Company or to any of the underwriters in connection with the Global Offering and none of the Company, the Joint Sponsors, the Underwriter's Representative or their respective associates, affiliates, directors, officers, employees, advisors or representatives takes any responsibility as to any tax consequences of the acquisition of or in relation to any dealings in the Investor Shares;
- (s) the Investor understands that no public market now exists for the Investor Shares, and that none of the Company, the Joint Sponsors, the Underwriter's Representative, the other underwriters of the Global Offering or their respective directors, officers, employees, subsidiaries, agents, associates, affiliates and advisors, nor any other parties involved in the Global Offering has made assurances that a public market will ever develop or exist for the Investor Shares;
- (t) any trading in the H Shares is subject to compliance with applicable laws and regulations, including the restrictions on dealing in shares under the SFO, the Listing Rules and any other applicable laws, regulations or relevant rules of any competent securities exchange; and
- (u) the Company and the Joint Global Coordinators will have absolute discretion to change or adjust (a) the number of H Shares to be issued under the Global Offering and (b) the number of H Shares to be issued under the Hong Kong Public Offering and the International Offering, respectively; and
- (v) the Investor has agreed that the payment for the Investor Shares and the related Brokerage and Levies shall become payable at 9:30 a.m. on the Listing Date.

6.2 Each of the Investor and the Guarantor jointly and severally represents, warrants and undertakes that:

- (a) it has been duly incorporated and is validly existing under the laws of its place of incorporation, it has the legal right and authority to own, use, lease and operate its assets and to conduct its business in the manner presently conducted, and that the Investor is wholly owned by its ultimate controlling shareholder;
- (b) it has full power, authority and capacity, and has taken all actions and has obtained all necessary consents, approvals and authorisations from any governmental and regulatory bodies or third parties required to execute and deliver this Agreement, enter into and carry out the transactions as contemplated in this Agreement and perform all of its obligations under this Agreement;

- (c) this Agreement has been duly authorised, executed and delivered by the Investor and constitutes a legal and binding obligation of the Investor enforceable against it in accordance with its terms and the Investor has complied and will comply with all applicable Laws and requirements in all jurisdiction relevant to the transactions contemplated by this Agreement or its acquisition of the Investor Shares, including, without limitation, to provide, or cause to procure to be provided, to the SFC, the Hong Kong Stock Exchange and/or China Securities Regulatory Commission and/or any other regulators (together, ***the Regulators***) all information (including, without limitation, identity information of the ultimate beneficial owner, if any, of the Investor Shares and/or the person ultimately responsible for the giving of the instruction relating to the acquisition) within the time and as requested by such Regulators. Each of the Investor, the Guarantor and the Investor Subsidiary further authorises the Company, the Joint Sponsors, the Underwriter's Representative or their respective affiliates to disclose to such Regulators all information relating to the transaction hereunder as such Regulators may request;
- (d) it has taken, and will for the term of this Agreement, take all necessary steps to perform its obligations under this Agreement and to give effect to this Agreement and the transactions contemplated in this Agreement;
- (e) the execution and delivery of this Agreement by the Investor and the Guarantor and the subscription of or purchase of the Investor Shares will not contravene or result in a contravention by the Investor or the Guarantor of (i) the memorandum and articles of association or other constituent or constitutive documents of the Investor or the Guarantor or (ii) the laws of any jurisdiction to which the Investor or the Guarantor is subject in respect of the transactions contemplated under this Agreement or which may otherwise be applicable to the Investor in connection with its subscription for the Investor Shares or (iii) any agreement or other instrument binding upon the Investor or the Guarantor or any judgement, order or decree of any governmental body, agency or court having jurisdiction over such Investor or the Guarantor;
- (f) it shall provide to the Company, the Joint Sponsors and the Underwriter's Representative promptly upon request all such information as may be required by the Hong Kong Stock Exchange, the SFC and other governmental, public, monetary or regulatory authorities or bodies or securities exchange, and agrees and consents to the disclosure of such information to the applicable authorities or bodies or securities exchange;
- (g) it has such knowledge and experience in financial and business matters that (i) it is capable of evaluating the merits and risks of the prospective investment in the Investor Shares; (ii) it is capable of bearing the economic risks of such investment, including a complete loss of its investment in the Investor Shares; (iii) it has received all the information it considers necessary or appropriate for deciding whether to subscribe the Investor Shares; and (iv) it is experienced in transactions of investing in securities;
- (h) its ordinary business is to buy or sell shares or debentures or it is a professional investor (as defined in section 1 of Part 1 of Schedule 1 to the SFO and it has read and understood the Professional Investor Treatment Notice as set out in Schedule 2 to this Agreement (the ***Professional Investor Treatment Notice***) and agrees to the Professional Investor Treatment Notice. For the purposes of this clause, "we" in the Professional Investor Treatment Notice shall mean the Company, the Joint Sponsors and the Underwriter's Representative, "you" shall mean the Investor and the Guarantor and "our" and "your" shall be construed accordingly;

- (i) it is purchasing the Investor Shares as a principal and not an agent on behalf of third parties for investment purposes and on a proprietary investment basis without a view to making distribution of any of the Investor Shares purchased by it hereunder;
- (j) (i) if purchasing the Investor Shares in the United States, it is a QIB in reliance on Rule 144A under the Securities Act; or (ii) if purchasing the Investor Shares outside the United States, it is doing so in an “offshore transaction” within the meaning of Regulation S under the Securities Act and it is not a U.S. Person as defined in Regulation S;
- (k) (i) none of the Investor, the Guarantors or their beneficial owners and/or associates is an existing shareholder or a connected person of the Company or an associate thereof and its purchase of the Investor Shares shall not constitute a “connected transaction” (as defined in the Listing Rules) or result in the Investor becoming a connected person of the Company or an associate of a connected person and the Investor, the Guarantor and their beneficial owners and/or associates will, immediately after completion of this Agreement, be independent of and not acting in concert with (as defined in the Hong Kong Code on Takeovers and Mergers) any connected persons in relation to the control of the Company or any acquisition, disposal, voting or any other disposition of securities in the Company; and (ii) each of the Investor, the Guarantor and their respective beneficial owners and/or associates is not a “connected client” of any of the Underwriter’s Representative, the lead broker or any distributors (the terms connected client, lead broker and distributor shall have the meanings ascribed to them in Appendix 6 to the Listing Rules “Placing Guidelines for Equity Securities”) and does not fall under any category of the persons described under paragraph 5 in Appendix 6 to the Listing Rules;
- (l) the Investor is not directly or indirectly funded or backed by any connected persons of the Company and is not accustomed to take instructions from a connected person of the Company in relation to the acquisition, disposal, voting or any other disposition of securities in the Company; the Investor and the person, if any, for whose account the Investor is purchasing the Investor Shares, is not an affiliate of the Company or a person acting on behalf of the Company or on behalf of such an affiliate;
- (m) each of the Investor and, the Guarantor, its/their beneficial owner(s) and their respective associates is not a director (including a director within the preceding 12 months), supervisor or existing shareholder of the Company or their associates, nor a nominee of any of the foregoing;
- (n) the Investor has not entered and will not enter into any contractual arrangement with any “distributor” (as defined in Regulation S) with respect to the distribution of the H Shares, except with its affiliates or with the prior written consent of the Company;
- (o) the acquisition of the Investor Shares will comply with the provisions of the Listing Rules (including but not limited to Appendix 6 (Placing Guidelines for Equity Securities) to the Listing Rules and the Hong Kong Stock Exchange Guidance Letter HKEx-GL51-13);
- (p) neither the Investor nor any of its associates will apply for any Shares under the Global Offering other than pursuant to this Agreement;

- (q) to the best knowledge of the Investor after making due enquiries, the Investor, the Guarantor and each of its/their respective associates are independent of, and not connected with, the other investors who have participated or will participate in the Global Offering and any of their associates; and
- (r) it has been given the opportunity to ask questions and receive answers from the Company concerning the Company, the Investor Shares and other related matters and all information it deems necessary or desirable to evaluate the merits and risks of the acquisition of the Investor Shares and that the Company has made available to the Investor or its agents all documents and information relating to an investment in the Investor Shares required by or on behalf of the Investor.

6.3 Each of the Investor and the Guarantor represents and warrants that the description set out in Schedule 1 in relation to it and the group of companies of which it is a member is true and accurate and is not misleading. Without prejudice to the provisions of clause 6.1(b), each of the Investor and the Guarantor irrevocably consents to the mention and inclusion of its name and all or part of the description set out in Schedule 1 in the Public Documents and other marketing materials for the Global Offering. The Investor undertakes promptly to provide such further information and/or supporting documentation relating to it, its ownership and/or otherwise relating to the matters referred to in Schedule 1 which may reasonably be required by the Company or the Joint Sponsors to verify such reference and to ensure the compliance with applicable companies or securities registration and/or the requests of competent regulatory authorities, including without limitation the Hong Kong Stock Exchange and the SFC. Each of the Investor and the Guarantor hereby agrees that after reviewing the description in relation to it and the group of companies of which it is a member to be included in such drafts of the Public Documents and other marketing materials relating to the Global Offering from time to time provided to the Investor and making such amendments as may be reasonably required by the Investor (if any), each of the Investor and the Guarantor warrants that such description in relation to it and the group of companies of which it is a member is true, accurate and complete in all respects and is not misleading.

6.4 Each of the Investor and the Guarantor understands that the representations and acknowledgements in clauses 6.1 and 6.2 are required in connection with Hong Kong Laws and the securities Laws of the United States, amongst others. Each of the Investor and the Guarantor acknowledges that the Company, the Joint Sponsors, the Underwriter's Representative, the underwriters, and their respective subsidiaries, agents, affiliates, associates and advisers will rely upon the truth and accuracy of the Investor's warranties, undertakings, representations and acknowledgements set forth therein, and it agrees to notify the Company, the Joint Sponsors, the Underwriter's Representative promptly in writing if any of the warranties, undertakings, representations or acknowledgements therein ceases to be accurate and complete or become misleading.

6.5 Each of the Investor and the Guarantor jointly and severally agrees and undertakes that the Investor and the Guarantor will on demand fully and effectively indemnify and hold harmless, on an after-tax basis, each of the Company, the Joint Sponsors, the Underwriter's Representative and other underwriters of the Global Offering, any person who controls any Joint Sponsors, the Underwriter's Representative and other underwriters of the Global Offering and their respective officers, directors, employees, affiliates, associates and advisers (collectively, the **Indemnified Parties** and individually, an **Indemnified Party**) against any and all losses, costs, expenses, claims, actions, liabilities, proceedings or damages (any and all of which are referred to as **Damages**) resulting from a breach of this Agreement, or any act or omission hereunder, by or caused by the Investor or the Investor Subsidiary or its officers, directors, employees, affiliates, associates and advisers which may be made or established against any Indemnified Party in connection with the subscription of the Investor Shares, the Investor Shares or this Agreement in any manner whatsoever and against any and all costs, charges, losses or expenses which any Indemnified Party may suffer or incur in connection with or disputing or defending any such claim, action or proceedings on the grounds of or otherwise arising out of or in connection therewith.

6.6 The Company represents and warrants that:

- (a) it has been duly incorporated and is validly existing under PRC law;
- (b) it has full power, authority and capacity, and has taken all actions required to enter into and perform its obligations under this Agreement; and
- (c) subject to payment, the Investor Shares will, when delivered to the Investor in accordance with clause 4.3, be fully paid and free from all options, liens, charges, mortgages, pledges, claims, equities, encumbrances and other third party rights and shall rank *pari passu* with the H Shares then in issue and to be listed on the Hong Kong Stock Exchange; and
- (d) the Company and its respective affiliates, directors, officers, employees or agents have not entered into any agreement or arrangement, including, but not limited to, any side letter which is inconsistent with the Listing Rules (including, but not limited to, the Guidance Letter HKEx-GL51-13 (February 2013) which was issued by the Stock Exchange) with the Investor the Guarantor or its/their respective affiliates, directors, officers, employees or agent.

6.7 The Company acknowledges, confirms and agrees that the Investor will be relying on information contained in the International Offering Circular and that the Investor shall have the same rights in respect of the International Offering Circular as other investors purchasing H Shares in the International Offering.

6.8 Each of the representations, warranties and undertakings given by the Parties hereto shall be construed as a separate representation, warranty and undertaking and shall be deemed to be repeated on the Listing Date.

## **7. GUARANTEE**

7.1 To the extent that any of the Relevant Shares are to be held by the Investor, the Guarantor as primary obligor unconditionally and irrevocably:

- (a) guarantees by way of continuing guarantee to the Company the payment of all amounts by the Investor under this Agreement;
- (b) undertakes to ensure the due and punctual performance and observance by the Investor (including any and all assignees of the Investor pursuant to Clause 5.2) of all its agreements, obligations, undertakings, warranties, representations, indemnities, consents, acknowledgements, confirmations and covenants under this Agreement;
- (c) undertakes to contribute sufficient investment in the Investor to ensure the Investor to perform its obligations under this Agreement;
- (d) undertakes that it will not during the Lock-up Period dispose of all or part of its equity interests in the Investor to the effect that the Investor will cease to be its subsidiary. The Guarantor agrees and undertakes not to dispose of any of its legal or beneficial interest, whether directly or indirectly, in the Investor to the effect that the Investor will cease to be its subsidiary during the Lock-Up Period without the prior written consent of the Company and Underwriter's Representative; and

- (e) undertakes to indemnify on demand and hold harmless each of Indemnified Parties against any and all losses, costs, expenses, claims, liabilities (including but not limited to legal costs) whatsoever arising directly or indirectly out of, or incurred in connection with any breach of any of the agreements, warranties and undertakings contained herein by the Investor (including any and all assignees of the Investor pursuant to Clause 5.2).

7.2 The Guarantor's obligations under Clause 7.1:

- (a) constitute direct, primary and unconditional obligations to pay on demand by the Company, the Joint Sponsors or the Underwriter's Representative any sum which the Investor is liable to pay under this Agreement and to promptly perform on demand any obligation of the Investor under this Agreement without requiring the Company, the Joint Sponsors or the Underwriter's Representative first to take steps against the Investor or any other person. For the purpose of Clause 7, the term "Investor" shall be construed in this Agreement to include "Investor Subsidiary"; and
- (b) shall not be affected by any matter or thing which but for this provision might operate to affect or prejudice those obligations, including without limitation:
  - (i) any amendment, variation or assignment of this Agreement or any waiver of its terms;
  - (ii) any release of, or granting of time or other indulgence to, the Investor or any third party;
  - (iii) any winding up, dissolution, reconstruction, legal limitation, incapacity or lack of corporate power or authority or other circumstances affecting the Investor (or any act taken by the Investor in relation to any such event); or
  - (iv) any other act, event, neglect or omission (whether or not known to the Company or the Investor or the Guarantor) which would or might operate to impair or discharge the Investor's or the Guarantor's liability or afford the Investor or the Guarantor any legal or equitable defence.

**8. TERMINATION**

8.1 This Agreement may be terminated:

- (a) in accordance with clause 3.2, 4.5 or 4.6;
- (b) by the Company or each of the Joint Sponsors or the Underwriter's Representative in the event there is a material breach of this Agreement on the part of the Investor; or
- (c) with the written consent of all the Parties.



8.2 In the event that this Agreement is terminated in accordance with clause 8.1, the Parties shall not be bound to proceed with their respective obligations under this Agreement and the rights and liabilities of the Parties hereunder shall cease, and the Investor shall not be entitled to pursue any claims under this Agreement against the Company, the Underwriter's Representative, the Joint Sponsors and the underwriters or their respective subsidiaries, agents, affiliates or advisors, including without limitation, any claims based on any breach of the warranties of the Company as set out in clause 6.6. For the avoidance of doubt, in the event that this Agreement is terminated with the written consent of all Parties and there is no breach of this Agreement on the part of the Investor, any amount paid by the Investor hereunder will be repaid to the Investor without interest.

## **9. ANNOUNCEMENTS AND CONFIDENTIALITY**

9.1 Save as otherwise provided in this Agreement, none of the Parties shall disclose any information concerning this Agreement or the transactions contemplated herein or any other arrangement involving the Company and the Investor without the prior written consent of the other Parties. Notwithstanding the foregoing, this Agreement may be disclosed:

- (a) to the Hong Kong Stock Exchange, the SFC, China Securities Regulatory Commission and other regulators to which the Company and/or any of the underwriters of the Global Offering is subject, and the background of the Investor and the Guarantor and its/their respective relationship with the Company may be described in the Public Documents to be issued by the Company;
- (b) to the legal and financial advisors and employees of the Parties and their affiliates hereto on a need-to-know basis provided that such Party shall (i) procure that each such advisors and their respective employees is made aware and complies with all the confidentiality obligations set forth herein and (ii) remain responsible for any breach of such confidential obligations by such advisors or their respective employees;
- (c) otherwise by any Party as may be required by any applicable law, any government, court or regulatory authority or body with jurisdiction over such Party (including without limitation to the Hong Kong Stock Exchange and the SFC) or stock exchange rules (including submitting this Agreement as a material contract to the Hong Kong Companies Registry for registration and making it available for inspection by the public in accordance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Listing Rules) or any binding judgment, order or requirement of any competent authority;
- (d) by the Investor in its announcement and circular in connection with the acquisition of the Investor Shares if required by the Listing Rules.

Save as provided above, no other reference or disclosure shall be made regarding this Agreement or any ancillary matter hereto by the Investor, except where the Investor shall have consulted the Company, the Joint Sponsors and the Underwriter's Representative in advance to seek the prior written consent of each of such parties (such consent not to be unreasonably withheld or delayed) as to the principle, form and content of such disclosure.

9.2 The Company shall use its commercially reasonable endeavours to provide for review by the Investor of any statement in any of the Public Documents which relates to this Agreement, the relationship between the Company and the Investor and the general background information on the Investor prior to publication. The Investor shall use its best endeavours to cooperate with the Company, the Joint Sponsors and the Underwriter's Representative to ensure that all references to it in such Public Documents are true, accurate and not misleading, and shall provide any comments promptly to the Company, the Joint Sponsors and the Underwriter's Representative and their respective counsels.

9.3 Each of the Investor and the Guarantor hereby agrees that after reviewing the description in relation to it to be included in such drafts of the Public Documents from time to time provided to the Investor and making such amendments as may be reasonably required by the Investor (if any), each of the Investor and the Guarantor jointly and severally warrants that such description is true and accurate and is not misleading. Without prejudice to the provisions of clause 9.2, each of the Investor and the Guarantor irrevocably consents to the reference to, and inclusion in the Public Documents, roadshow materials and such other announcements which may be issued by the Company, the Underwriter's Representative, the Joint Sponsors and/or the Joint Global Coordinators in connection with the Global Offering of, its name, and all or part of the description of this Agreement, its background information and its relationship with the Company, the Underwriter's Representative, the other underwriters and/or the Joint Sponsors. The Investor undertakes promptly to provide such further information and/or supporting documentation relating to it, its ownership and/or otherwise relating to the matters referred thereto which may reasonably be required by the Company, the Underwriter's Representative, or the Joint Sponsors to (i) update the description of the Investor in the Public Documents subsequent to the date of this Agreement and to verify such references, and (ii) enable the Company to comply with applicable companies or securities registration and/or the requests of competent regulatory authorities, including without limitation the Hong Kong Stock Exchange and the SFC.

## **10. NOTICES**

10.1 All notices delivered hereunder shall be in writing in the English language and shall be delivered in the manner required by clause 10.2 to the following addresses:

If to the Company, to:

Address: No. 288 Qingchun Road, Hangzhou, Zhejiang Province, China

Facsimile: (86571) 87659826

Attention: Chen Sheng

If to the Investor, to:

Address: 1401 Hutchison House, 10 Harcourt Road, Hong Kong

Facsimile: (86537) 5382032

Attention: Bi Bo

If to Guarantor, to:

Address: 298 Fushan Road South, Zoucheng City, Shandong Province, PRC

Facsimile: (86537) 5383311

Attention: Board Secretary Office

If to the Underwriter's Representative, to:

Address: Units 1803-4, 18/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong

Facsimile: + (852) 3900 0864

Attention: ECM Department

10.2 Any notice delivered hereunder shall be delivered by hand or sent by facsimile or by pre-paid post. Any notice shall be deemed to have been received, if delivered by hand, when delivered and if sent by facsimile, on receipt of confirmation of transmission and if sent by pre-paid post, (in the absence of evidence of earlier receipt) 48 hours after it was posted (or six days if sent by air mail). Any notice received on a day which is not a business day shall be deemed to be received on the next following business day.

## **11. GENERAL**

11.1 Each of the Parties confirms and represents that this Agreement has been duly authorised, executed and delivered by it and constitutes its legal, valid and binding obligations and is enforceable against it in accordance with its terms. Except for such consents, approvals and authorisations as may be required by the Company to implement the Global Offering, no corporate, shareholder or other consents, approvals or authorisations are required by such Party, or the aforesaid consents, approvals or authorisations (except for such consents, approvals and authorisations as may be required by the Company to implement the Global Offering) have been obtained for the performance of its obligations under this Agreement and each of the Parties further confirms that it can perform its obligations described hereunder.

11.2 Save for manifest error, calculations and determinations made in good faith by the Company with the agreement of the Joint Global Coordinators shall be conclusive with respect to the number of Investor Shares and the Offer Price for the purposes of this Agreement.

11.3 The Investor, the Company, the Joint Sponsors and the Underwriter's Representative shall cooperate with respect to any notifications to, or consents and/or approvals of, third parties which are or may be required for the purposes of or in connection with this Agreement.

11.4 No alteration to, or variation of, this Agreement shall be effective unless it is in writing and signed by or on behalf of all the Parties hereto.

11.5 This Agreement will be executed in the English language only.

11.6 Unless otherwise agreed by the relevant parties in writing, each party shall bear its own legal and professional fees, costs and expenses incurred in connection with this Agreement, save that stamp duty arising in respect of any of the transactions contemplated in this Agreement shall be borne by the relevant transferor/seller and the relevant transferee/buyer in equal shares.

11.7 Time shall be of the essence of this Agreement.

11.8 All provisions of this Agreement shall so far as they are capable of being performed or observed continue in full force and effect notwithstanding completion of the acquisition of the Investor Shares by the Investor in accordance with clause 4 of this Agreement except in respect of those matters then already performed.

11.9 Other than the non-disclosure undertaking made by the Investor, this Agreement constitutes the entire agreement and understanding between the Parties in connection with the investment in the Company by the Investor. This Agreement supersedes all prior communications, understandings and agreements relating to the subject matter hereof, whether written or oral.

11.10 Each of the Joint Sponsors and the Underwriter's Representative has the power and is hereby authorised to delegate all or any of its relevant rights, duties, powers and discretions in such manner and on such terms as it thinks fit (with or without formality and without prior notice of any such delegation being required to be given to the Company or the Investor) to any one or more of its affiliates. Each of the Joint Sponsors and the Underwriter's Representative shall severally but not jointly remain liable for all acts and omissions of any of their respective affiliates to which it delegates relevant rights, duties, powers and/or discretions pursuant to this sub-clause notwithstanding any such delegation.

11.11 No delay or failure by a Party to exercise or enforce (in whole or in part) any right provided by this Agreement or by law shall operate as a release or waiver, or in any way limit that Party's ability to further exercise or enforce that, or any other, right. A waiver of any breach of any provision of this Agreement shall not be effective, or implied, unless that waiver is in writing and is signed by the Party against whom that waiver is claimed.

11.12 If at any time any provision of this Agreement are or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, that shall not affect or impair:

- (a) the legality, validity or enforceability in that jurisdiction of any other provision of this Agreement; or
- (b) the legality, validity or enforceability under the law of any other jurisdiction of that or any other provision of this Agreement.

11.13 Without prejudice to all rights to claim against the Investor and the Guarantor for all losses and damages suffered by the other Parties, if there is any breach of warranties made by the Investor and/or the Guarantor on or before the Delivery Date(s), the Company, the Joint Sponsors and the Underwriter's Representative shall, notwithstanding any provision to the contrary to this Agreement, have the right to rescind this Agreement and all obligations of the Parties hereunder shall cease forthwith.

11.14 The Parties hereto agree and the Investor confirms that (a) the acknowledgement, representations, warranties, undertakings and indemnities given to the Underwriters' Representatives by and (b) the obligations of the Investor, whether in relation to itself or otherwise, in this Agreement (including, without limitation, clauses 5 and 6) are for the benefit of the Underwriters' Representatives for itself and as representatives of the Joint Sponsors, the Joint Global Coordinators, the joint bookrunners and the underwriters of the Global Offering.

## **12. IMMUNITY**

To the extent that any party hereto may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process or to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), such party hereby irrevocably agrees not to claim and irrevocably waives such immunity to the full extent permitted by applicable laws.

### **13. GOVERNING LAW AND JURISDICTION**

13.1 This Agreement and the relationship between the Parties shall be governed by, and interpreted in accordance with, the laws of Hong Kong.

Any dispute or claim arising out of or in connection with this Agreement, whether in tort, contract, under statute or otherwise, including any question regarding its existence, validity, interpretation, performance, breach or termination (a “**Dispute**”), shall be referred to and finally resolved by arbitration at the Hong Kong International Arbitration Centre (“**HKIAC**”) in accordance with the HKIAC Administered Arbitration Rules in force as at the date of this letter (the “**Rules**”), which Rules are deemed to be incorporated by reference into this clause and as may be amended by the rest of this clause. The appointing authority shall be the HKIAC. The place of arbitration shall be in Hong Kong at the HKIAC and the governing law of the arbitration proceedings shall be Hong Kong. There shall be three arbitrators and the language in the arbitration proceedings shall be English. The decision and award of the arbitral tribunal shall be final and binding on the parties and may be entered and enforced in any court having jurisdiction, and the parties irrevocably and unconditionally waive any and all rights to any form of appeal, review or recourse to any judicial authority, insofar as such waiver may be validly made. Notwithstanding the foregoing, the parties shall have the right to seek interim injunctive relief or other interim relief from a court of competent jurisdiction, before the arbitral tribunal has been appointed. Without prejudice to such provisional remedies as may be available under the jurisdiction of a national court, the arbitral tribunal shall have full authority to grant provisional remedies or order the parties to request that a court modify or vacate any temporary or preliminary relief issued by such court, and to award damages for the failure of any party to respect the arbitral tribunal’s orders to that effect.

### **14. PROCESS AGENT**

14.1 Each of the Investor and the Guarantor irrevocably appoints CMB International Capital Limited at Units 1803-4, 18/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong, to receive, for it and on its behalf, service of process in the proceedings in Hong Kong. Such service shall be deemed completed on delivery to the process agent (whether or not it is forwarded to and received by the Investor). If for any reason the process agent ceases to be able to act as such or no longer has an address in Hong Kong, each of the Investor and the Guarantor irrevocably agrees to appoint a substitute process agent acceptable to the Company, the Joint Sponsors and the Underwriter’s Representative, and to deliver to the Company, the Joint Sponsors and the Underwriter’s Representative a copy of the new process agent’s acceptance of that appointment, within 30 days thereof.

### **15. COUNTERPARTS**

15.1 This Agreement may be executed in any number of counterparts, and by each Party hereto on separate counterparts. Each counterpart is an original, but all counterparts shall together constitute one and the same instrument. Delivery of an executed counterpart signature page of this Agreement by e-mail attachment (PDF) or telecopy shall be an effective mode of delivery.

**IN WITNESS** whereof each of the Parties has executed this Agreement by its duly authorised signatory on the date set out at the beginning.

Signed by Liu Long  
for and on behalf of  
**CHINA ZHESHANG BANK CO., LTD.**

) /s/ Liu Long  
) \_\_\_\_\_  
)

Signed by: **Li Xiyong**  
for and on behalf of  
**YANZHOU COAL MINING COMPANY LIMITED**  
**(兖州煤业股份有限公司)**

) /s/ Li Xiyong  
) \_\_\_\_\_  
)  
)

Signed by: **Li Xiyong**  
For and on behalf of  
**YANCOAL INTERNATIONAL (HOLDING)  
COMPANY LIMITED**  
**(兖煤国际(控股)有限公司)**

) /s/ Li Xiyong  
) \_\_\_\_\_  
)  
)  
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)





## **SCHEDULE 1**

### **PARTICULARS OF INVESTOR**

Place of incorporation: Hong Kong

Certificate of incorporation number: 1631570

Business registration number: 58665579-000

Principal activities: Investment holding

Ultimate controlling shareholder: Yankuang Group Company Limited

Description of the Investor for insertion in prospectus:

Yancoal International (Holding) Company Limited is a company with limited liability incorporated under the laws of Hong Kong and a wholly-owned subsidiary of Yanzhou Coal Mining Company Limited. The principle business of Yancoal International (Holding) Company Limited is investment holding

The ultimate controlling shareholder of Yancoal International (Holding) Company Limited is Yankuang Group Company Limited. Yankuang Group Company Limited mainly engaged in coal mining & sales, coal chemical industry, power generation & aluminum production and machinery manufacturing.

## SCHEDULE 2

### PROFESSIONAL INVESTOR TREATMENT NOTICE

1. You are a Professional Investor by reason of your being within a category of person described in the Securities and Futures (Professional Investor) Rules as follows:

- 1.1 a trust corporation having been entrusted with total assets of not less than HK\$40 million (or equivalent) as stated in its latest audited financial statements prepared within the last 16 months, or in the latest audited financial statements prepared within the last 16 months of the relevant trust or trusts of which it is trustee, or in custodian statements issued to the trust corporation in respect of the trust(s) within the last 12 months;
- 1.2 a high net worth individual having, alone or with associates on a joint account, a portfolio of at least HK\$8 million (or equivalent) in securities and/or currency deposits, as stated in a certificate from an auditor or professional accountant or in custodian statements issued to the individual within the last 12 months;
- 1.3 a corporation the sole business of which is to hold investments and which is wholly owned by an individual who, alone or with associates on a joint account, falls within paragraph 1.2 above; and
- 1.4 a high net worth corporation or partnership having total assets of at least HK\$40 million (or equivalent) or a portfolio of at least HK\$8 million (or equivalent) in securities and/or currency deposits, as stated in its latest audited financial statements prepared within the last 16 months or in custodian statements issued to the corporation or partnership within the last 12 months.

We have categorised you as a Professional Investor based on information you have given us. You will inform us promptly in the event any such information ceases to be true and accurate. You will be treated as a Professional Investor in relation to all investment products and markets.

2 As a consequence of categorisation as a Professional Investor, we are not required to fulfil certain requirements under the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the Code) and other Hong Kong regulations. While we may in fact do some or all of the following in providing services to you, we have no regulatory responsibility to do so:

2.1 Client agreement

We are not required to enter into a written agreement complying with the Code relating to the services that are to be provided to you.

2.2 Risk disclosures

We are not required by the Code to provide you with written risk warnings in respect of the risks involved in any transactions entered into with you, or to bring those risks to your attention.

2.3 Information about us

We are not required to provide you with information about its business or the identity and status of employees and others acting on its behalf with whom you will have contact.

2.4 Prompt confirmation

We are not required by the Code to promptly confirm the essential features of a transaction after effecting a transaction for you.

2.5 Information about clients

We are not required to establish your financial situation, investment experience or investment objectives, except where we are providing advice on corporate finance work.

2.6 Nasdaq–Amex Pilot Program

If you wish to deal through the Hong Kong Stock Exchange in securities admitted to trading on the Hong Kong Stock Exchange under the Nasdaq-Amex Pilot Program, we are not required to provide you with documentation on that program.

2.7 Suitability

We are not required to ensure that a recommendation or solicitation is suitable for you in the light of your financial situation, investment experience and investment objectives.

2.8 Investor characterization/ disclosure of sales related information

The Underwriter’s Representative shall not be subject to the requirements of paragraph 5.1A of the Code relating to know your client investor characterization and paragraph 8.3A of the Code relating to disclosure of sales related information.

3 You have the right to withdraw from being treated as a Professional Investor at any time in respect of all or any investment products or markets on giving written notice to us.

4 By signing this Agreement, you represent and warrant to us that you are knowledgeable and have sufficient expertise in the products and markets that you are dealing in and are aware of the risks in trading in the products and markets that you are dealing in.

5 By signing this Agreement, you hereby agree and acknowledge that you have read and understood and have had explained to you the consequences of consenting to being treated as a Professional Investor and the right to withdraw from being treated as such as set out herein and that you hereby consent to being treated as a Professional Investor.

6 By signing this Agreement, you hereby agree and acknowledge that we will not provide you with any contract notes, statements of account or receipts under the Hong Kong Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules where such would otherwise be required.

## LIST OF SUBSIDIARIES OF YANZHOU COAL MINING COMPANY LIMITED

As of December 31, 2015, we owned the following major subsidiaries:

<u>Name of subsidiary</u>	<u>Country of incorporation/ registration and operation</u>
Yankuang Shanxi Neng Hua Company Limited	PRC
Shanxi Heshun Tianchi Energy Company Limited	PRC
Shanxi Tianhao Chemicals Company Limited	PRC
Zoucheng Yankuang Beisheng Industry & Trading Co., Ltd	PRC
Shandong Yanmei Shipping Co., Ltd.	PRC
Inner Mongolia Haosheng Coal Mining Co., Ltd	PRC
Zhongyan Trade Co., Ltd	PRC
Yanzhou Coal Mining Yulin Neng Hua Co., Ltd	PRC
Yanmei Heze Company Limited	PRC
Inner Mongolia, Yanzhou Coal Ordos Neng Hua Company Limited	PRC
Inner Mongolia Yize Mining Investment Co., Ltd	PRC
Inner Mongolia Rongxin Chemicals Co., Ltd	PRC
Inner Mongolia Daxin Industrial Gas Co., Ltd	PRC
Inner Mongolia Xintai Coal Mining Company Limited	PRC
Ordos Zhuanlongwan Coal Mining Company Limited	PRC
Ordos Yingpanhao Coal Mining Company Limited	PRC
Shandong Hua Ju Energy Company Limited	PRC
Shandong Yanmei Rizhao Port Coal Storage and Blending Co., Ltd.	PRC
Qingdao Yanmei Dongqi Energy Co., Ltd	PRC
Shandong Coal Trading Centre Co., Limited	PRC
Shandong Zhongyin Logistics & Trade Company Limited	PRC
Zhongyin Financial Leasing Company Limited	PRC
Duanxin Investment Holding (Beijing) Company Limited	PRC
Shandong Duanxin Supply Chain Management Co., Ltd	PRC
Heze Duanxin Supply Chain Management Co., Ltd	PRC
Dalateqi Duanxin Supply Chain Management Co., Ltd	PRC
Qingdao Zhongyin Ruifeng International Trading Co., Ltd	PRC
Yancoal Australia Limited	Australia
Austar Coal Mine Pty, Limited	Australia
Gloucester Coal Limited	Australia
Yancoal Australia Sales Pty Ltd	Australia
Yancoal SCN Ltd	Australia
Yancoal Mining Services Ltd	Australia
Watagan Mining Company Pty Ltd	Australia
Yancoal Resources Ltd	Australia
Westralian Prospectors NL	Australia
Eucla Mining NL	Australia
CIM Duralie Pty Ltd	Australia

Duralie Coal Marketing Pty Ltd	Australia
Duralie Coal Pty Ltd	Australia
Gloucester (SPV) Pty Ltd	Australia
Gloucester (Sub Holdings 1) Pty Ltd	Australia
Gloucester (Sub Holdings 2) Pty Ltd	Australia
SASE Pty Limited	Australia
Proserpina Coal Pty Ltd	Australia
Yarrabee Coal Company Pty Ltd	Australia
White Mining Limited	Australia
Moolarben Coal Operations Pty Ltd	Australia
Moolarben Coal Mines Pty Limited	Australia
Felix NSW Pty Ltd	Australia
Moolarben Coal Sales Pty Ltd	Australia
CIM Mining Pty Ltd	Australia
Donaldson Coal Holdings Limited	Australia
Monash Coal Holdings Pty Ltd	Australia
Athena Coal Operation Pty Ltd	Australia
Athena Coal sales Pty Ltd	Australia
Paway Limited	British Virgin Islands
White Mining Services Pty Limited	Australia
Ashton Coal Operations Pty Limited	Australia
Ashton Coal mines Limited	Australia
White Mining (NSW) Pty Limited	Australia
CIM Stratford Pty Ltd	Australia
CIM Services Pty Ltd	Australia
Donaldson Coal Pty Ltd	Australia
Donaldson Coal Finance Pty Ltd	Australia
Monash Coal Pty Ltd	Australia
Stradford Coal Pty Ltd	Australia
Stradford Coal Marketing Pty Ltd	Australia
Abakk Pty Ltd	Australia
Newcastle Coal Company Pty Ltd	Australia
Primecoal International Pty Ltd	Australia
Yancoal International (Holding) Co., Ltd	Hong Kong
Yancoal International Resources Development Co., Limited	Hong Kong
Yancoal International Technology Development Co., Limited	Hong Kong
Yancoal International Trading Co., Limited	Hong Kong
Yancoal Luxembourg Resources Holding Co., Ltd	Luxembourg
Yancoal Canada Resources Holding Co., Ltd	Canada
Athena Holdings P/L	Australia
Premier Coal Holdings P/L	Australia
Tonford Holdings P/L	Australia
Wilpeena Holdings P/L	Australia

Yancoal Energy P/L	Australia
Yancoal International Technology Development Pty Ltd	Australia
Athena Coal Mine Pty Ltd	Australia
Premier Coal Limited	Australia
Tonford Pty Ltd	Australia
Syntech Holdings Pty Ltd	Australia
Syntech Holdings II Pty Ltd	Australia
UCC Energy Pty Limited	Australia
Premier Char Pty Ltd	Australia
Yancoal Technology Development Pty Ltd	Australia
AMH (Chinchilla Coal) Pty Ltd	Australia
Syntech Resources Pty Ltd	Australia
Mountfield Properties Pty Ltd	Australia
Yankuang Donghua Heavy Industry Limited	PRC
Yankuang Group Tangcun Industrial Co., Ltd	PRC
Shandong Yankuang Group Changlong Cable Manufacturing Co., Ltd	PRC
Zhoucheng Chengyan Material Inspection and Testing Co., Ltd	PRC
Yankuang Group Mainland Machinery Co. Ltd	PRC
Yankuang Group Yanzhou Sanfanggang Structural Engineering	PRC
Yankuang Group Zoucheng Jinming Electrical Company Limited	PRC
Yankuang Group Zoucheng Dehailan Rubber Product Co., Ltd	PRC
Yanzhou Dongfang Electrical Co., Ltd	PRC
Yankuang Group Jintong Rubber Co., Ltd	PRC
Yankuang Jintong Latin American Co., Ltd	Peru

**CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14  
OF THE SECURITIES EXCHANGE ACT OF 1934  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES–OXLEY ACT OF 2002**

I, WU Xiangqian, certify that:

1. I have reviewed this annual report on Form 20-F of Yanzhou Coal Company Limited (the “Company”);
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material aspects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;
4. The Company’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
  - (d) Disclosed in this annual report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and



5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 26, 2016

By: /s/ WU Xiangqian

Name: WU Xiangqian

Title: Director and General Manager

**CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14  
OF THE SECURITIES EXCHANGE ACT OF 1934  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES–OXLEY ACT OF 2002**

I, ZHAO Qingchun, certify that:

1. I have reviewed this annual report on Form 20-F of Yanzhou Coal Company Limited (the “Company”);
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material aspects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;
4. The Company’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
  - (d) Disclosed in this annual report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 26, 2016

By: /s/ ZHAO Qingchun

Name: ZHAO Qingchun

Title: Chief Financial Officer

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

In connection with the annual report on Form 20-F of Yanzhou Coal Company Limited (the “Company”) for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof, I, WU Xiangqian, General Manager of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The annual report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the annual report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 26, 2016

By: /s/ WU Xiangqian

Name: WU Xiangqian

Title: Director and General Manager

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

In connection with the annual report on Form 20-F of Yanzhou Coal Company Limited (the “Company”) for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof, I, ZHAO Qingchun, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The annual report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the annual report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 26, 2016

By: /s/ ZHAO Qingchun

Name: ZHAO Qingchun

Title: Chief Financial Officer